
2. The Council adopted the following agenda:
   
   A. Admission of observers under Rules 11 and 14 of the Rules of Procedure
   
   B. Review of the functioning of the Arrangement
   
   C. Evaluation of the situation in, and outlook for, the world market for dairy products
   
   D. Report to the CONTRACTING PARTIES
   
   E. Tentative schedule of further meetings
   
   F. Note by the Chairman on the present meeting.

   A. Admission of observers under Rules 11 and 14 of the Rules of Procedure

   3. The Council invited Panama in the capacity of observer, to follow the proceedings of the session, in conformity with Rule 11 of the Rules of Procedure.

   4. The Chairman recalled that at its eleventh session held in September 1984, the Council had agreed to extend an invitation of a permanent character to the Economic Commission for Europe, FAO, OECD and UNCTAD. He had accordingly invited these organizations to participate in the present session as observers. Furthermore, an observer for the IMF was invited to attend the session, in conformity with Rule 14 of the Rules of Procedure.
B. Review of the functioning of the Arrangement

Reports of the thirty-eighth and thirty-ninth sessions of the Committees of the Protocols

5. In accordance with Article IV:1(b), the Council reviewed the functioning of the Arrangement. For this review, the Council had before it the report of the thirty-eighth sessions of Committee of the Protocol Regarding Certain Cheeses, the Committee of the Protocol Regarding Certain Milk Powders and the Committee of the Protocol Regarding Milk Fat (DPC/PTL/5). The full reports of the thirty-eighth sessions of the Protocol Committees had been approved at their thirty-ninth sessions and would be distributed shortly (DPC/PTL/6).

6. The Committees of the Protocols had held their thirty-nine session consecutively on 18 and 19 September 1989, and the Chair of the Committees was called upon to present an oral report of these meetings.

7. After examining the replies to the questionnaires, the Committees considered the market situation for the products covered by the Protocols. The market for milk and dairy products remained a balanced one in 1988 and throughout 1989 the increased supplies of milk were well absorbed. Intervention stocks of butter and skimmed milk powder were almost non-existent and were not expected to grow significantly in 1989/90 either. Prices in international markets rose strongly throughout 1988, but stabilized overall in 1989.

8. The Committees noted that in 1988, world production of butter and butter oil had stabilized at a level of 7.5 million tons and had remained at that level in 1989. Cheese production had expanded in 1988 by a further 2 per cent to 14 million tons, and the trend seemed to continue in 1989. Production of skimmed milk powder in 1988 had declined to 3.8 million tons and had remained roughly at that level in 1989. World production of whole milk powder continued to expand in 1988, reaching a level of 2.2 million tons, about 4 per cent more than in 1987. There had been a further expansion in 1989 due to the strong import demand.

9. World consumption of butter showed very little change on average, and per capita consumption averaged 2.8 kgs. over the past ten years. In 1989, however, consumption declined further in particular regions, notably in Western Europe and North America. The upward trend in cheese consumption continued in 1988 and 1989. However, in general, the increases in specialty cheeses were significantly above the rate of growth for traditional cheeses. World per capita cheese consumption had been increasing at an annual average rate of 2 per cent since the early eighties and might continue to increase at that rate. In 1988, world consumption of skimmed milk powder fell, reflecting lower supplies and rising prices to which feed compounders reacted in particular. Reduced supplies of skimmed milk powder were progressively replaced by whole milk powder, notably for food. Consumption of whole milk powder increased strongly in 1988 and 1989.
10. World exports of butter totalled 1 million tons in 1988, an all time record level. A large part of this consisted, however, of deliveries under derogations agreed previously, while the world market for normal commercial transactions would most likely be at a level of 650 thousand tons in 1989. World exports of cheese had expanded further in 1988, reaching 850 thousand tons. This was due to higher imports into Japan and stronger import demand by OPEC countries and other developing countries such as Brazil. The general expansionary tendencies continued during 1989. World exports of skimmed milk powder fell sharply in 1988 and were almost down to 1 million tons, slightly above their average level in 1981 to 1983. Exports might be further reduced to around 800 thousand tons in 1989. The upward trend in whole milk powder exports was confirmed in 1988, when world exports totalled 975 thousand tons. A further expansion was expected in 1989, with exports forecast to exceed 1 million tons, and in terms of volume whole milk powder would be the most important dairy product in international trade. The European Communities and New Zealand remained the major suppliers to the world market.

11. Reduced milk supplies and larger exports of dairy products had a considerable impact on stocks notably of butter and skimmed milk powder in 1988. While some rebuilding of butter stocks took place in 1989, stocks of skimmed milk powder remained low. In any case, public intervention stocks were expected to remain low in 1989/90.

12. Reduced supplies and lower carry-over stocks resulted in an improvement in prices for milk fats in 1988 and 1989. Prices for fresh butter in the third quarter of 1989 were between US$1,900 and US$2,100 per ton f.o.b. and those of anhydrous milk fat ranged between US$2,100 and US$2,500 per ton f.o.b. Cheese prices which increased throughout 1988 levelled off, however, in the first nine months of 1989. In June-September 1989, quotations for Cheddar were in the range of US$1,900 to US$2,200 per ton f.o.b. thus remaining well above the agreed minimum export price. International prices for milk powders also showed a steady improvement throughout 1988. During the first three quarters of 1989, prices of skimmed milk powder levelled off and ranged between US$1,800 and US$1,950 per ton f.o.b. in the third quarter and those of whole milk powder between US$1,850 and US$2,000 per ton f.o.b. The market reflected the combined effects of a tightening supply situation and a stronger US dollar but was expected to remain firm throughout 1989.

13. The major factors leading to the improvements in the dairy market were reduced supply pressures, the general rise in commodity prices and increased demand mainly by the improved economic and trading prospects of many of the developing countries which accounted for most of the dairy imports. The improved market situation entailed some reduction in export subsidies. Import demand was strong in some areas in spite of higher prices. The market outlook indicated that dairy prices in the world market would remain high and might for most products increase further in 1989/90.

14. Regarding sales under derogations, the Committees noted that no sales of milk fats, cheeses and milk powders were made under derogations in the second quarter of 1989.
15. The Committees reviewed the level of the minimum export prices of products covered by the respective Protocols on the basis of the criteria established by the Arrangement.

16. The Committees decided, pursuant to Article 3:3 of each of the Protocols, that the minimum prices specified in that provision would be raised (f.o.b. per metric ton) to US$1,200 for skimmed milk powder, US$1,250 for whole milk powder, US$1,200 for buttermilk powder, US$1,625 for anhydrous milk fat, US$1,350 for butter and US$1,500 for certain cheeses. The schedules of price differentials according to milk fat content were consequently modified. The decisions should take effect at noon on 20 September 1989, Geneva time.

17. The Committees agreed that the decisions would be duly recorded in the report and would be the subject of a Procès-Verbal signed by the Director-General of the CONTRACTING PARTIES to the General Agreement, certifying the entry into force of the new minimum prices and the new schedules of price differentials.

18. The Committees took note of statements by New Zealand, Uruguay, the EC, Australia and Egypt related to the above decisions.

19. The next regular sessions of the Committees of the Protocols were envisaged to be held on 11 and 12 December 1989. The Committees took note of a preliminary programme of further regular meetings up to the end of 1990.

20. The Council took note of the report on the implementation of the Protocol Regarding Milk Fat, the Protocol Regarding Certain Cheeses, and the Protocol Regarding Certain Milk Powders and in particular noted that the minimum export prices for all products covered by the Protocols had been raised with effect from 20 September 1989. The Council expressed its appreciation and sincere thanks to the Chair of the Committees for her excellent work and for the comprehensive report.

Replies to Questionnaire 4

21. The Chairman recalled that concerning data on milk and dairy products other than those covered by the Protocols, the secretariat had issued a reminder on 18 August 1989, in the form of an airgram requesting replies by 15 September 1989. So far in 1989, information had been received from Argentina, Australia, Bulgaria, the European Communities, Finland, Hungary, Japan, New Zealand, Norway, Poland, South Africa, Sweden, Switzerland and Uruguay. Similar information had also been received from Canada (DPC/W/79/Rev.1).

22. The Council took note of the information received, which had been or would shortly be circulated in the DPC/STAT/- series.
Replies to Questionnaire 5

23. The Chairman recalled that according to Article III of the Arrangement and to Rules 23 and 29 of the Rules of Procedure, the full text of an inventory of all measures, affecting trade in dairy products, including commitments resulting from bilateral, plurilateral or multilateral negotiations were due for a complete update, revision and circulation to participants early in 1989. He also reminded participants that they were supposed to communicate any changes in domestic policies and trade measures on a continuous basis, and in any case by July each year. So far in 1989, information on policies and trade measures had been received from Australia, the European Communities, Finland, Japan, New Zealand, Norway, Poland, South Africa, Sweden, Switzerland and Uruguay. Similar information had also been received from Canada (DPC/INV/4/Rev.2). The Chairman urged participants to submit all relevant information to the secretariat as soon as possible.

24. The Council took note of the information received which had been, or would shortly be, circulated in the DPC/INV/- series.

C. Evaluation of the situation in, and outlook for, the world market for dairy products

25. In order to facilitate the consideration by the Council, the secretariat had as usual prepared and circulated some background documentation, notably a status report DPC/W/91 and Add.1, a note on food aid DPC/W/93 and relevant statistical information contained in summary tables DPC/PTL/8, 9 and 10 and replies to questionnaires. The Chairman recalled that parts of the status report and the statistical information had been subject to consideration in the Protocol Committees. He therefore invited comments of a general nature on dairy policies and the market situation, but stressed that anyone should feel free to take up specific points related to the market situation and the documentation, if this was desirable.

26. In Sweden, the two-price scheme introduced in 1985 on a voluntary basis and in order to reduce milk production, had been terminated on 30 June 1989. An investment ban relating to annual production had been abolished at the same date. These measures together with the milk pension scheme had been successful in reducing the over-production of milk and deliveries had declined from 3.68 million tons in 1984 to 3.36 million tons in 1988. For 1989/90, compensation to producers for increased costs would temporarily be given in the form of direct payments according to the number of animals held and to the area farmed. The Government intended to act in conformity with recent agreements reached within the framework of the Uruguay Round negotiations and support prices would not be increased for the dairy sector.

27. In reply to questions from the European Communities, the Swedish representative said that the two-price scheme had successfully met the target set in 1985. Cow numbers and milk deliveries had fallen, and it was not necessary to maintain the scheme for the time being. The deliveries
had increased by 1 per cent in 1989 and were expected to increase by another 2 per cent in 1990, but were then expected to stabilize at a level of 3.45 million tons. This was considered to be sufficient to meet domestic demand and leave an occasional surplus to be exported at less than 5 per cent of total milk deliveries. The major disadvantages with the two-price scheme had been a burdensome administration, difficulties achieving fair and equitable treatment of individual producers, an apparent risk of capitalization effects and negative impacts on efficiency, competition, structure and prices to consumers. It had also been criticized that a non-governmental body was in charge of the management of the scheme and that the possibility for appealing to an independent body was lacking.

28. The representative of Australia recalled that his delegation had submitted a paper at the time of the June meetings of the Protocol Committees, setting out the situation as Australia saw it (DPC/W/90). Over recent years, there had been dramatic changes in the dairy market, and the question was whether the present situation would last. He referred to some recent analyses made in the framework of the OECD suggesting that policies in place had the potential to result in increased production despite the constraints applied. Although world trade in dairy products only accounted for 6 per cent of milk output, the matter was of concern to Australia and New Zealand as they depended heavily on dairy exports. He felt that much attention had been focused on the Arrangement on the level and observance of minimum export prices, but found it appropriate to recall the general objectives of the Arrangement as set out in its Article I, namely the objective to achieve the expansion and ever-greater liberalization of world dairy trade and to further the economic and social development of developing countries. Notably with regard to the latter point, and in light of comments made during the meetings of the Protocol Committees, he expressed the view that this did not merely mean to provide developing countries with cheap food, thereby destroying price incentives to local farmers and hampering the development of national production.

29. He was hopeful that the opening up of the Japanese market would be beneficial to dairy exporters as this was a market with a great demand potential. Cheese consumption there was still at a level of only 1 to 1.3 kgs. per capita and domestic supplies were small. He expressed concern about developments in North American markets, noting that productivity improvement was expected to lead to an expansion of United States milk production. In relation to the preparation of a new United States Farm Bill, the Australian Government had made representation to the United States authorities warning that the shape of such legislation might have implications for the level of United States dairy production. He had observed with some satisfaction though, recent statements by United States officials that any new policies would be market oriented and respond to market signals.

30. He finally recalled that Community milk deliveries exceeded the quotas both in 1987/88 and in 1988/89, and that the excess production corresponded to about 30 per cent of the annual production in Australia. Furthermore, Community subsidization of domestic sales and exports had continued.
expressed concern that in this situation, the additional allocation of 600 thousand tons to the Community reserve to accommodate SLOM and a Commission proposal to relax quota levels would reduce production disincentives and result in a Community milk production of 98 million tons, 2 million tons above the stated target. He noted the adverse effects this excess production might have on the world market, notably in light of: a falling butter consumption in some member countries; continued subsidization of domestic sales and of exports of butter (export subsidies still being at a level of 80 per cent of the world market price); and a falling trend in import demand for butter and butter oil. In the situation he regretted that the Community was reluctant to agree to raising minimum export prices under the Arrangement to a level corresponding to production costs of efficient producers. The reduction of subsidized exports and of the size of export subsidies was of fundamental importance to the stability of the world dairy market. He feared that a relaxation of Community quotas would entail the maintenance or even the institutionalization of subsidized Community exports at a level exceeding total Australian dairy production.

31. The representative of the European Communities was grateful for being informed about the experience of Sweden in the field of dairy policies. As to the intervention by Australia, he could agree that developments in the Community markets had decisive influence on the world market to a much greater extent than would be the case for other exporters. It should nevertheless be kept in mind that developments and policies in other countries could also have impacts on the world market. As to the OECD analysis referred to by Australia, the Community representative felt it to be beyond doubt that it was the Community measures taken that primarily or almost exclusively contributed to the improvement in the world market for dairy products. Community milk production had been reduced in a way never seen before. The OECD reports suggested, however, if carefully read, that the reduction in Community milk deliveries were outweighed by increases in other countries such as the United States, New Zealand and Australia. It was evident that from now on, total milk production of OECD countries might again increase by 0.5 per cent per year. The world market for milk fat would remain fragile and surpluses might again occur, not least following a stagnation in demand. In this situation, it was not fair to express doubts about the Community intentions with respect to quotas. He was not in the position to discuss the Commission's proposals regarding the future of the quota system. The proposals envisaged certain adaptations in order to take care of particular problems having occurred in the past, and they were not aiming at a reform of the system as such neither of a relaxation or increase of quotas.

32. As to the question of export refunds, subject to a never-ending discussion, he reiterated that this was based on two elements, of which the Community was responsible for only one; namely the internal price. In his view, other exporters with their exports well organized through Boards, had more possibilities to influence the world market than the many individual operators in the Community had. The Community could not give up its system of price differentiation between the internal and the external market, and the difference would have to be covered by a refund. The refunds would
have to be determined in relation to the supplies offered on the world market. The improved situation in the world market at present had enabled the Community to reduce dairy export refunds by one half. He was willing to pursue an orderly discussion on the matter, but found the continued accusations against the Community of not doing enough, to be inappropriate or even dangerous.

33. He recalled that the Community quota system had had significant effects; milk deliveries had been reduced by 7.4 million tons; the number of dairy farms had been reduced from 1.62 million in 1984 to 1.24 million in 1988; cow numbers had in the same period been reduced from 25.51 million to 22.94 million head, and intervention policies had been changed to discourage surplus production. These results compared with simultaneous developments in other countries, illustrated clearly that the Community measures had played a major role in restoring the balance in the international dairy market, and that other exporters had not taken similar steps or made efforts for the same purpose. Referring to the comments made regarding paragraph 14 of the Mid-Term Agreement, he stressed that this contained no commitment to limit production, but merely not to increase support and protection, something the Community had so far fully complied with.

34. The New Zealand dairy industry continued to operate in the context of international market developments, and its representative had no substantial policy changes to report on. It would still take some time for the industry to recover from the years of low returns not least because investments had been kept down. He felt there was some confusion persisting in the debate as to the production potential of New Zealand and recalled some underlying factors, such as a sharp variation in production from one season to another due to changing climatic conditions. So, if production happened to increase in one particular year there should be no reason for others to lecture about alarming production increases. The New Zealand dairy sector was in better shape than it had been a while ago, but was not yet attracting a substantial inflow of resources.

35. He commended the secretariat for its status report, which painted a very positive picture of world dairy markets. Although intervention stocks were indeed almost non-existent, he wanted to draw the attention of the Council to recent developments in the United States, where Commodity Credit Corporation stocks of butter had increased sharply in 1989, entailing substantial quantities of US butter being offered on the world market. He noted that as earlier surplus disposals of butter and skimmed milk powder had been completed, exports of these products might have settled around the 1981-83 level, while trade in cheese and whole milk powder was growing steadily.

36. He assumed that the reference made in the status report to the fact that supply control had caused problems to the dairy industry and that consequently some policy adjustment was under consideration, was mainly aimed at discussions going on in the Community. He shared the concern
expressed by Australia that a relaxation of Community quotas could jeopardize the stability of the market. He welcomed the greater discipline proposed concerning the implementation of the Community system and that its target could be more successfully met than in the past. He saw no need for increasing quotas as an increase in quotas now might send the wrong signal to the market and have an adverse effect on prices. He noted the Commission's claim that the quota adjustments would not result in increased deliveries. This in his view did not remedy the situation of permanent over-production beyond the Community target which could have been eliminated by stricter penalties. The proposal to increase Community quotas did little to inspire confidence, and seen in relation to agreements already reached in the Uruguay Round, the proposal caused concern about the Community's commitment in that respect. The proposal might also be inconsistent with short-term commitments taken on, as it seemed to assume a net increase support level for the quota production. He interpreted statements by the Community at earlier meetings to mean that any increase in quotas would be balanced by reduction in support prices, and that the Community felt bound to observe strictly paragraph 14 of the Agreement reached in April 1989. New Zealand was now concerned that the Community might fail to observe strictly that commitment, and was looking forwards to receiving the reports on planned reforms due to be submitted shortly. While not questioning the Community's intention to contain the production level in the future, he was concerned that the pressure from young farmers would remain and would constitute some uncertainty as to what the situation would be beyond 1992. He would appreciate any comments from the Community on these concerns.

37. As the United States was not participating in the work of the Council or the Committees, he thought it useful to share some recent information he had obtained from Washington. According to this CCC stocks of butter would only have reached 55,000 tons on 1 October 1989, which meant that they had declined appreciably. What caused some concern, however, was that pressure seemed to be exercised on the US administration not to implement the programmed reduction in the milk support price and to unload price reactions in favour of non-fat milk powder rather than on butter. It might consequently be desirable for the participants to the Arrangement to inform each other of changes in US policy, as the United States had a potential to affect world markets, and notably as long as the United States did not participate in this work. The New Zealand representative furthermore referred to the Canadian system, under which there was a link between support prices and increase in costs. On 1 August 1989, target prices for industrial milk and support prices for butter had been increased. He stressed that producers whose returns depended entirely on the international market were obliged to increase efficiency to meet rising costs, and that this should also be required by producers benefiting from support and protection, in order to move towards more market-oriented policies. Finally, as to the situation regarding food aid, he said that it was necessary to get away from the idea that surplus stocks were an acceptable source of food aid, a system that had operated almost entirely to the convenience of the donor country.
38. In reply to a question from New Zealand, the representative of Switzerland confirmed that some existing Swiss legislation regarding milk and dairy production would soon expire and that the matter was under consideration. Parliamentary decisions had not yet been taken. In light of the projects under consideration, he did not believe that there would be fundamental changes from the current legislation.

39. The observer from Canada confirmed that the information contained in paragraph 58 of the status report was correct. The changes made in the Canadian dairy programme were fully consistent with Canada's commitments under short-term elements adopted by the Trade Negotiations Committee in 1989, and in particular with the final sentence of paragraph 14 of the chapter Agriculture in the TNC Mid-Term Review Agreements (MTN/TNC/11). He reiterated that Canada continued to strongly support the need for international trade reform and intended to continue to act in accordance with the undertakings agreed upon in April 1989.

40. The observer from the OECD reported that after the implementation of programmes in a variety of OECD countries since 1985, the dairy supply/demand situation across member countries was much improved. Dairy cow numbers had fallen from almost 50 million in 1985 to 43.2 million in 1989 and had declined by 2.1 per cent since the beginning of 1988. Although milk yields continued to increase, milk production continued to fall, and had declined by about 3.5 per cent since 1985. Milk fat consumption continued to increase and was expected to rise by about 3 per cent in 1989. As regards returns to producers, administered prices in many countries had been either frozen or lowered (European Communities and Japan); whereas, both administered and real prices to producers had risen in the export-oriented dairy sectors of New Zealand and Australia, in response to rising world prices. As international dairy prices rose, government expenditures for export subsidies fell drastically; for example, skimmed milk powder market prices rose above the US domestic support level and also Community subsidies were decreased. The international situation furthermore encouraged efforts by many countries to reduce public expenditures on dairy support (European Communities, New Zealand, Canada, Australia, Sweden and Austria). Consequently, the Producers Subsidy Equivalent for the dairy sector of individual member countries declined significantly over the past eighteen months. However, it should be remembered that the average Producers Subsidy Equivalent for dairy products in OECD member countries remained well above the average for other commodities monitored by the OECD.

MEDIUM-TERM TRENDS ESTABLISHED BY THE OECD

| Calendar years | 1988 | 1989(P) | 1994(F) | 1994/1989 (%)
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<tr>
<td>Dairy cows (million head)</td>
<td>47.5</td>
<td>46.1</td>
<td>43.6</td>
<td>92</td>
</tr>
<tr>
<td>Milk production (m.t.)</td>
<td>220.8</td>
<td>219.9</td>
<td>226.4</td>
<td>103</td>
</tr>
<tr>
<td>Milk fat production (m.t.)</td>
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<td>8.6</td>
<td>8.9</td>
<td>103</td>
</tr>
<tr>
<td>Milk fat consumption (m.t.)</td>
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<td>7.8</td>
<td>8.3</td>
<td>106</td>
</tr>
<tr>
<td>Milk fat balance (m.t.)</td>
<td>1.1</td>
<td>0.8</td>
<td>0.6</td>
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41. The Council took note of the status report on the world market for dairy products (DPC/W/91 and Add.1), a note on food-aid operations (DPC/W/93) and the relevant statistical information provided. The Council also noted the comments made under this item of the agenda. It agreed that the status report and its addendum, as amended and completed in light of more recent information and taking into account the comments made, should be released for general distribution as the tenth annual report under the International Dairy Arrangement.

D. Report to the CONTRACTING PARTIES

42. The Chairman recalled that according to a decision of the CONTRACTING PARTIES of 28 November 1979 (BISD 26S/201) the Council was requested to report on its activities.

43. The Council agreed that the Chairman should submit on his own responsibility a concise, but purely factual report to the CONTRACTING PARTIES on the activities of the International Dairy Products Council and of the Protocol Committees since the 1988 session of the CONTRACTING PARTIES.

E. Tentative schedule of further meetings

44. The Chairman recalled that according to the Rules of Procedure, the International Dairy Products Council shall normally meet in March and September of each year (Rule 3), and the Committees in March, June, September and December of each year (Rule 16). For some time, it had been the tradition of the Council to establish at its September session a tentative schedule of future meetings.

45. The Council consequently adopted the following schedule of meetings:

1989

11-12 December Committee of the Protocol Regarding Certain Milk Powders
Committee of the Protocol Regarding Milk Fat
Committee of the Protocol Regarding Certain Cheeses

1990

19-20 March Committee of the Protocol Regarding Certain Cheeses
Committee of the Protocol Regarding Certain Milk Powders
Committee of the Protocol Regarding Milk Fat

21 March International Dairy Products Council

18-19 June Committee of the Protocol Regarding Milk Fat
Committee of the Protocol Regarding Certain Cheeses
Committee of the Protocol Regarding Certain Milk Powders

17-18 September Committee of the Protocol Regarding Certain Milk Powders
Committee of the Protocol Regarding Milk Fat
Committee of the Protocol Regarding Certain Cheeses
19 September  International Dairy Products Council

10-11 December Committee of the Protocol Regarding Certain Cheeses
Committee of the Protocol Regarding Certain Milk Powders
Committee of the Protocol Regarding Milk Fat

46. Any special session would be in addition to this schedule. It was noted that such a tentative schedule of meetings was established for preliminary reference only and all dates remained subject to confirmation by the secretariat. Attention of delegations was however drawn to the very heavy schedule of GATT meetings throughout the remainder of 1989 and 1990 and to the fact that it may be necessary to make changes on short notice.

F. Note by the Chairman on the present meeting

47. The Chairman recalled that according to a decision of 28 November 1979, (BISD 26S/201) the CONTRACTING PARTIES should receive adequate information on developments relating to the operation of the Arrangement. He accordingly suggested that he as usual circulate a note by the Chairman as follows:


3. The Council reviewed the functioning of the Arrangement. It took note of reports on the implementation of the Protocol Regarding Certain Cheeses, the Protocol Regarding Certain Milk Powders and the Protocol Regarding Milk Fat, and in particular noted that the Committees of the Protocols had raised the minimum export prices for all products covered by the Protocols. New minimum export prices, effective 20 September 1989 are as follows, per ton f.o.b.: anhydrous milk fat US$1,625, butter US$1,350, certain cheeses US$1,500, whole milk powder US$1,250, skimmed milk powder and buttermilk powder US$1,200. The Council concluded that the International Dairy Arrangement was functioning to the satisfaction of its participants, that it was working very well and had proved to be a valuable instrument in restoring and maintaining the order in the international dairy market.

4. The Council took note of the information submitted recently in reply to Questionnaires 4 and 5, concerning production, consumption, trade and prices for products not covered by the Protocols and concerning dairy policies and measures affecting trade.

5. Basing itself on the reports from the Committees of the Protocols, documentation prepared by the secretariat and on information provided by participants during the meeting, the Council undertook an evaluation of the situation in, and outlook for, the world market for dairy products.
6. The market for milk and dairy products remained a balanced one in 1988 and throughout 1989, with the increased supplies of milk being well absorbed. Intervention stocks of butter and skimmed milk powder were almost non-existent, and were not expected to grow significantly in 1989/90, as the production of butter and skimmed milk powder seemed to have stabilized in 1989. The upward trend in both production and international trade of cheese and whole milk powder continued in 1989.

7. Prices in international markets rose strongly throughout 1988, but stabilized in 1989. In 1989, most dairy products were traded at prices near to US$2,000 per ton or above, roughly double their levels of two-years’ earlier. For cheese and powders, prices reached historical records, while those for butter and anhydrous milk fat were still inferior to their levels early in the decade.

8. Some participants expressed the concern that the current market situation might entail an expansion in the milk production notably in countries not participating in the Arrangement. The production potential in the medium term could be much greater than had been indicated in projections and forecasts so far, not least in light of ample feed supplies and technological progress. The danger persisted that supplies might again increase faster than a steady but limited growth of import demand and consumption, and it was imperative that production should not be unnecessarily stimulated through support and protection. The view prevailed that agreements arrived at lately, stating that agricultural policies should be more responsive to international market signals in order to meet the objective of liberalization of trade and that support and protection should be progressively reduced and provided in a less trade-distorting manner, should be rapidly implemented with respect to milk and dairy products.

9. Food aid in terms of dairy products continued to be adversely affected in 1989 by the reduction in available supplies, notably of skimmed milk powder.

10. The Council took note of the documents and comments made, and agreed that the status report as completed, updated and amended should be released for general distribution as the tenth annual report of the International Dairy Arrangement.

11. The Council authorized the Chairman to submit to the CONTRACTING PARTIES a report on the work done since November 1988 in pursuance of the objectives of the International Dairy Arrangement. It was understood that the Chairman would do so on his own responsibility.

12. The Council adopted a tentative time schedule for regular meetings up to the end of 1990. In doing so, it was understood that any special session would be in addition to that schedule and that all dates would remain subject to confirmation by the secretariat. Attention of delegations was drawn to the very heavy schedule of GATT meetings throughout the remainder of 1989 and 1990 and to the fact that it might be necessary to make changes on short notice."
48. The Council agreed to the suggestions by the Chairman and the note was circulated in document L/6567 dated 22 September 1989.

49. The twenty-first session of the International Dairy Products Council was then closed.