The following communication, dated 24 September 1993, has been received from the New Zealand Permanent Mission.

PROPOSALS FOR IMPROVEMENT OF OPERATIONAL EFFECTIVENESS OF IDA

Summary

1. The derogation approved at the June meeting of the Committee for sales of butter and butter oil to the States of the former Soviet Union eased problems in the international market for these products in the short term. But the serious underlying problems in this market and the international market remain and require more durable solutions. In its paper for the June meeting, New Zealand identified a number of options that might contribute to such a solution.

New Zealand now wishes to propose redenominating IDA minimum prices in ECU, realigning minimum prices to reflect the changed price relationship of the principal milk components in international and domestic markets, a review of procedures in place in the IDA to monitor sales made by participants, and a co-ordinated effort by IDA members to persuade non-IDA members to take greater account of commercial interests in considering food aid transactions.

The proposal to realign minimum prices takes account of the provisions of Article 3.3(b) which provide for annual review of the levels of the minimum prices by the Committee at the September meeting and seeks to develop New Zealand's previous proposals on the review of minimum prices which have been before the Committee since early 1992.

Background

2. New Zealand outlined in its paper to the June Committee the gravity of the situation in the international butter and butter oil market as a result of the political and economic upheaval in the States of the former Soviet Union. New Zealand proposed a derogation to permit sales of butter and butter oil below the minimum to these States. New Zealand appreciated the support of other participants for the derogation.
3. But that derogation can only be seen as a partial solution to the problems being faced. Deeper problems remain. These problems were identified in our earlier paper and can be summarized as follows:

- Considerable weakness in demand in the States of the former Soviet Union. This may continue for some time (i.e. several years) as the authorities in those countries seek to stabilize their countries both politically and economically. With the FSU historically accounting for over 50 per cent of the international market for butter, there are no existing, let alone new, markets that offer any prospects of taking up all or even much of any reduced demand from the FSU.

- Continuing supply pressure. The pressures seen in the last twelve months or so from non-IDA participants seeking to dispose of surplus stocks (most notably, by the United States in significant volumes into the FSU) can be expected to continue. There will also be pressure from IDA participants competing for scarce markets, especially those non-subsidized producers needing to clear all their production through commercial channels during their production season.

- continuing movement in exchange rates, particularly between the United States dollar and European currencies. This will create scope for further unevenness in the application of IDA disciplines to export traders.

4. The above factors combined are likely to place the IDA minima for butter and butter oil under severe pressure in the medium term at least, and create scope for considerable instability in the market for these products over this period. This situation is likely to be further complicated by unevenness in the application of the IDA disciplines. There is a need for a durable solution to contain such pressure and avoid instability.

5. Desirably this solution should take account of the significant developments in the international dairy market since the IDA was established which have changed the context in which the IDA disciplines operate:

- There is reduced access to certain markets for some products, notably butter;

- there has been an increase in the influence on international dairy market price formation of assistance provided to exporters in the form of export restitutions, bonuses and other export subsidy assistance;

- a major structural shift in demand for butter has occurred following the collapse of the former Soviet Union;

- changes have occurred in the membership of the IDA, with the United States and Austria having ceased to be members some years ago; and

- a major shift has taken place in the relative values of the principal components of milk.

6. Account needs to be taken of these changes. Reliance on the sorts of solution used previously (notably, adjustment to the minima, temporary derogations) will not in themselves be sufficient. A more durable solution is needed.

7. The purpose of the IDA is to promote stability (and where possible, growth) in trade in dairy products. If the impact of current instability is to be reduced, then the IDA must be made more operationally effective so that the minima are denominated in a currency which correlates more closely
to the major source of supply; so that the disciplines apply more transparently and evenly; so that
the underlying relationship in the market place between butterfat and protein is more accurately
recognized; and so that non-IDA participants are made more aware of the importance of co-operation
in fostering stability (and mutual benefit) in the international market place.

Proposed solution

(i) Redenomination of IDA minimum prices

8. The European Community is the largest exporter of dairy products. As a result, the
European Community has a significant influence on international price levels. Whilst rates of EC export
restitutions are denominated in ECUs, European Community exporters must take account of the ECU
value of these restitutions in setting their export offer prices.

9. Given the above, we consider that it would be more appropriate that the IDA minima be
denominated in ECU. This would more accurately reflect the key rôle of the EC (and the ECU) in
the international dairy trade, both in terms of price formation but also to an extent through pricing
in European currencies in the denomination of trade transactions. It would facilitate easier administration
by the EC of its restitution system. It would foster greater transparency, given the current difficulty
of correlating EC export restitution levels with current exchange rate values between the United States
dollar and EC currencies. And it would also serve to reduce the scope for unevenness in the application
of IDA disciplines consequential on exchange rate movements between the United States dollar and
European currencies (see paragraph 13 of our June paper explaining how this unevenness can arise).

(ii) Realignment of values

10. A major shift has occurred in the period since 1980 in the relative values of the principal
components of milk. The value of fat has declined while the value of protein in relative terms has
improved. This has been reflected in the market support structure of dairy products in major dairy
producing countries. In turn, it has been reflected in the changing relative prices for butter and skim milk
powder in the international market and ultimately in the valuation of the components of milk in countries
such as New Zealand where prices received by producers of milk are determined by international market
realizations.

11. The minimum prices fixed under the IDA need to take account of these structural, long-term
adjustments in fat and protein values. Annex I provides details on the changes which have occurred
in the relative prices for butter and SMP (i.e. fat and protein) in Europe and North America, in particular
a gradual decrease in the price of butter and a significant increase in the price of SMP. Attachment II
shows the increasing ratio of SMP values over the decline of butter fat values in both the United States
and EC, which is reflected in the changes in their market support structures since 1980.

12. New Zealand proposes therefore than the minimum prices for the milk powders protocol be
increased. This would be effected to take account of the need to restore the relationship between
the minimum prices and the support prices for milk powder in major producing countries. Also, given
minimum prices were last adjusted as long ago as 1989 and that the international market pricing for
milk powders has remained firm, a significant increase in the minimum prices for milk powders, unlike
milk fats, can be sustained (see Annex III). In addition, Annex III demonstrates that the emerging
trend in the ratio of values in the underlying components for milk (as in attachment II) has not been
reflected in the level of the minima.
(iii) IDA monitoring procedures

13. Given the expectation of considerable pressure on pricing around the minima in the period ahead, we consider that it would be timely to examine the procedures which the IDA has in place for monitoring and reporting on sales being made by IDA participants. If the IDA is to operate effectively and fairly then it is important that the procedures in place be sufficient to enable the IDA and participants to monitor sales on a regular, meaningful and transparent basis while taking appropriate account of commercially sensitive information. Unless this is so, the integrity of the IDA will be undermined and its future jeopardized.

14. New Zealand therefore proposes that, as a first step, the Secretariat be asked to undertake a review of the procedures currently in place in the IDA to facilitate effective monitoring of sales made by participants and recommend any changes to these procedures which might promote greater transparency and facilitate more effective monitoring. This review could include a review of procedures employed by participants to monitor sales by their own nationals and secure adherence to the IDA minima.

(iv) Other options

15. New Zealand indicated in its earlier paper as one option the making of approaches to significant exporters of butter and butter oil who are not currently members of the IDA to encourage them to ensure that all concessional and food aid transactions have better regard to the legitimate interests of commercial exporters to all markets. Given the serious impact that food aid transactions can have on international price levels and commercial opportunities, we would see value in IDA members undertaking a co-ordinated effort to persuade non-IDA members of the importance of co-operating more with IDA members and taking greater account of their interests.

16. We would welcome proposals from other participants that might contribute towards a full and durable solution to the ongoing difficulties in the international dairy market and facilitate a substantive discussion of the issues at the September meeting.

Proposal

17. Taking account of the continuing difficulties in the international butter/butter oil market, the substantial influence of the butter on price formation and increasingly in the denomination of contract prices, the need for evenness in the application of IDA disciplines, and the change in the relative value of milk components, New Zealand proposes:

that the minimum prices of all three protocols be redenominated in ECU with an accompanying revision of the level of the minimum prices fixed under the milk powders protocol. Accordingly it is proposed that the minimum export prices for the pilot products for each of the protocols to the IDA be revised and fixed at the levels set out below:
## Milk Fats Protocol

<table>
<thead>
<tr>
<th></th>
<th>Current minimum US$/tonne</th>
<th>New minimum US$/tonne</th>
<th>New minimum ECU/tonne</th>
</tr>
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<tbody>
<tr>
<td>Butter</td>
<td>1,350</td>
<td>No change</td>
<td>1,110</td>
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<tr>
<td>Anhydrous milk fat</td>
<td>1,625</td>
<td>No change</td>
<td>1,330</td>
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</table>

## Milk Powders Protocol

<table>
<thead>
<tr>
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<th>Current minimum US$/tonne</th>
<th>New minimum US$/tonne</th>
<th>New minimum ECU/tonne</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skimmed milk powder</td>
<td>1,200</td>
<td>1,400</td>
<td>1,150</td>
</tr>
<tr>
<td>Buttermilk powder</td>
<td>1,200</td>
<td>1,400</td>
<td>1,150</td>
</tr>
<tr>
<td>Whole milk powder</td>
<td>1,250</td>
<td>1,400</td>
<td>1,150</td>
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## Cheese Protocol

<table>
<thead>
<tr>
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<th>Current minimum US$/tonne</th>
<th>New minimum US$/tonne</th>
<th>New minimum ECU/tonne</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheese</td>
<td>1,500</td>
<td>No change</td>
<td>1,230</td>
</tr>
</tbody>
</table>

### Note:
Values have been calculated using a conversion rate of US$1 = 0.82 ECU. Resulting ECU denominations have been rounded in some cases.

No reduction has been made to the existing minimum prices for butter, anhydrous milk fat or cheese. Minimum prices for skim milk powder and buttermilk powder have been increased by ECU 164 (US$200/tonne) and the minimum price for whole milk powder increased by ECU 123 (US$150/tonne). These adjustments reflect the realignment of relative values between fat and protein products, as well as between whole milk powder and other milk powders.

18. New Zealand would also favour the initiation of a review by the Secretariat of current IDA procedures for monitoring and reporting of sales and a co-ordinated effort by IDA members to persuade non-IDA members to take greater account of their commercial interests in considering food aid transactions.

### Conclusion

19. The ongoing difficulties in the international market for butter and butter oil continue to represent a serious and major challenge to the IDA. New Zealand considers that the above proposal for redenomination and realignment of the minima would contribute toward providing a durable solution to some of these difficulties and improve the operational effectiveness of the IDA minimum price disciplines. It considers the proposal, supplemented by the further steps outlined in paragraphs 15-17, should be adopted by the Protocol Committee as a matter of some urgency if the integrity of the IDA is to be maintained and stability is to be restored to international dairy markets. It remains ready to consider any additional proposals that other members might wish to make to supplement them.
USA SUPPORT PRICES
BUTTER & SKIMMILK POWDER

EC INTERVENTION PRICES
BUTTER & SKIMMILK POWDER

Source: U.S.D.A.

Source: EC Commission
ANNEX II

RATIOS
SMP; BUTTER

Source: EC Commission
U.S.D.A.
ANNEX III

GATT/IDA: Minimum Export Prices 1980 to 1992

<table>
<thead>
<tr>
<th>GATT/IDA : Minimum Export Prices 1980 to 1992</th>
<th>Effective Since</th>
</tr>
</thead>
<tbody>
<tr>
<td>USS/Tonne (FOB)</td>
<td></td>
</tr>
<tr>
<td>Skimmed Milk Powder</td>
<td></td>
</tr>
<tr>
<td>125</td>
<td>200</td>
</tr>
<tr>
<td>Butter</td>
<td></td>
</tr>
<tr>
<td>125</td>
<td>200</td>
</tr>
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</table>

GATT/IDA : MINIMUM PRICES
BUTTER & SKIMMILK POWDER

Source: GATT/IDA