

GENERAL AGREEMENT ON TARIFFS AND TRADE

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International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

Special Meeting on 15 May 1985 concerning the Adequacy and Effectiveness of the Arrangement and Obstacles to its Acceptance

Draft Report

Chairman: Mr. J. Viganó (Argentina)

Introduction

1. The International Dairy Products Council held a special meeting on 15 May 1985. The meeting was held pursuant to an invitation by the CONTRACTING PARTIES to examine the adequacy and effectiveness of the International Dairy Arrangement and of the obstacles to acceptance which contracting parties may have faced (L/5756). Non-signatory contracting parties had been invited to the meeting and were provided with the opportunity to express their views.
2. The Council adopted the following agenda for the meeting:
 - (i) Examination of the adequacy and effectiveness of the Arrangement;
 - (ii) Examination of the obstacles to acceptance of the Arrangement, which contracting parties may have faced;
 - (iii) Report of the meeting.
3. The Chairman referred to a background note prepared by the secretariat and with his consent, document DPC/W/45 dated 9 May 1985. The document had been prepared as an attempt to provide assistance to delegations, notably delegations of non-signatory contracting parties that might not have followed the work of the Council regularly. The note also aimed at facilitating the discussion of this matter in the Council.

4. The Chairman furthermore recalled that over recent months considerations had been going on regarding questions related to the minimum prices and other current problems facing the Arrangement, to which solutions had not yet been fully agreed upon. It was therefore in a rather special situation that the Council embarked on the examination as requested by the CONTRACTING PARTIES. He suggested, however, that the discussion should focus on problems of long-term or medium-term character.

Examination of the adequacy and effectiveness of the Arrangement

5. The representative of New Zealand pointed out that the International Dairy Arrangement was operating in one of the international trading community's most distorted markets, with massive surplus stocks overhanging the market. Protectionist policies, price support and export subsidies were strong barriers to liberalizing world trade, which had, together with stagnant consumption and worsening economic conditions in many developing countries, created serious difficulties for world dairy trade. The Arrangement had failed to deal adequately with these closely interrelated problems, but it had shown the capacity in the past to limit some of the damage to the interests of dairy exporters. Although an imperfect policy instrument, it was one which New Zealand was interested in preserving.

6. Further market distortions had been caused by surplus disposal of dairy products, and he stressed that food aid donations of such products should be effected in accordance with the FAO "Principles of Surplus Disposal and Consultative Obligations". These principles had been eroded, with the result that world market prices had continued to decline. He found it to be regrettable that the Community had ignored the Arrangement in 1984, by making a large-scale disposal of butter, an action which had shaken the very foundation of the Arrangement. He saw the United States withdrawal from the Arrangement as a response to the events of 1984 and feared that this action by the United States had further damaged the Arrangement. Some of the remaining participants had claimed that they were unable, in the present situation, to abide by all undertakings as signatories. The inability of participants to reach a consensus on steps to resolve current problems indicated that the credibility of the Arrangement was heavily strained, and the Arrangement could scarcely be described as effective.

7. New Zealand welcomed recent changes in Community and United States production policies and felt that this revealed a recognition of the need to take positive action to avoid further accumulation of surpluses. For its part, New Zealand would continue to make strenuous efforts to work positively towards a solution to current problems. It recognized the value of the Arrangement as a means of providing some discipline to a distorted market, and hoped other participants shared that attitude. He feared that without the Arrangement, the situation could only be worse. The much-needed strengthening of the Arrangement through positive moves to restore the balance between supply and demand, required improved co-operation and a willingness of all participants to understand the concerns of major exporters.

8. The representative of Argentina shared the concerns expressed by New Zealand, and recalled that this meeting took place at a time when the Arrangement was going through a critical phase. In fact, the international market situation had worsened over recent years, with steadily increasing stocks for most dairy products. The surpluses had been caused mainly by the application of policies based on dubious criteria, and not on the logic of economic resource use. The existence of surpluses had resulted in a depressed international market and a falling price trend for all dairy products.

9. In his view, the price provisions and the minimum prices of the Arrangement were meant to provide a safety net preventing international market prices from falling to levels below the production costs of efficient producers not having the benefit of support policies. However, following a breach of these provisions by one participant in 1984, and the subsequent adoption of the Resolution of 16 November 1984, this safety net had been removed, with serious consequences, which were difficult to assess fully at the moment. Subsequently, one party had left the Arrangement and another would do so shortly. Successive meetings had been held in order to reach an agreement on modified minimum prices, disposal of old butter and the abrogation of the Resolution of 16 November 1984, but without result. It was obvious to his delegation that these developments had their origin in the enormous and uncontrolled surplus production, which remained the major disturbing factor for the Arrangement.

10. It was the opinion of the Argentinian delegation that a great deal of political will would be required to overcome the present difficulties, notably by the parties assuming the major responsibility for these. It would serve no purpose to pretend that other signatories, that had strictly observed the Arrangement, should assume greater obligations, having already suffered the prejudice of the measures and policies applied by others and over which they had no influence or power of decision. Finally, the representative of Argentina said that he believed that a solution to the problems was possible, on the condition that signatories agreed to make significant efforts in relation to their degree of responsibility.

11. The representative of Uruguay expressed the view that the Arrangement was a valuable instrument and stressed the special value of its economic provisions. It was the lack of observance of the latter by one participant in 1984, and the subsequent adoption of the Resolution of 16 November 1984, that had brought about the present difficulties. Consequently, two signatories had considered that key provisions of the Arrangement had been invalidated and had decided to withdraw therefrom. He expressed the concern that the present situation could lead to increased use of export subsidies in the dairy sector, leading to a situation where countries like his would be unable to compete and would suffer the consequences. He shared the hope expressed by others that the present difficulties could be overcome and that the positive aspects of the Arrangement could be safeguarded.

12. The representative of Australia said that Australia remained committed to effective international co-operation on dairy matters, and, in particular, to the International Dairy Arrangement if its credibility and viability could be restored. While he had reservations about the adequacy and effectiveness of the minimum price mechanism as a means of improving market stability and as the basis for the Arrangement, he agreed that the latter had worked satisfactorily until 1984. Subsequent events had underlined the need for a genuine political commitment by members to abide by its provisions if it were to be effective. The lack of political commitment was the main weakness of the Arrangement, and had eroded its effectiveness to maintain prices and stabilize the market. There was a degree of imbalance between members in their

enforcement of observance by exporters, often under the guise or excuse of different institutional arrangements, something which made it increasingly difficult for some members to justify adherence to the Arrangement to their industries. He referred to a major breach committed by the Community in 1984, when it had sold butter to the USSR, and also to continuing breaches of some minimum prices (e.g. for butter and whole milk powder). This erosion had led the United States to withdraw from the Arrangement. He considered it to be essential for the restoring of the credibility of the Arrangement that the question of ensuring observance be pursued, and further considered that the question of the degree of willingness of members to abide by their obligations must be addressed before any progress could be expected on improving and strengthening the Arrangement. Moreover, any outcome purporting to resolve current issues was not likely to last unless there was an improved degree of commitment by participants to adhere to the disciplines.

13. With regard to the fulfilment of the objectives of the Arrangement, there had been some increase in trade, but there had been no substantial progress towards greater liberalization of world trade in dairy products. There might have been some restraint recently of a limited nature on subsidized dairy production by some members. However, there had been no opening up of restricted import markets and surplus disposal export policies have driven world prices downwards.

14. He saw positive aspects in the operation of the Arrangement. In particular, it had brought together and strengthened the separate previous arrangements, widened the product coverage to include the whole of the dairy sector, and it had provided for the first time a specialized forum for consideration of dairy trade matters. It had undoubtedly contributed to an improved exchange of information and importantly, a better collection and flow of dairy statistical data and reporting on dairy support and trade policies. It had also raised the level and tone of consultation among participants and had brought to bear a generally constructive and co-operative approach to the resolution of issues. Against this background, and whilst noting the limitations of the Arrangement and the fact that it was currently confronted with particularly difficult questions, he believed that there were sound grounds for persisting with attempts to restore its strength and its credibility.

15. The representative of the European Communities shared some of the concerns and criticisms expressed by others but pointed out that these ought to be seen in a general context and as a whole. He realized that the common agricultural policy had resulted in a surplus of dairy products, but at the same time pointed out that the Community nevertheless imported annually 85,000 tons of butter and 100,000 tons of cheese at significantly reduced levies. He would not deny that the large sales in 1984 of butter to the USSR constituted a breach of the price provisions of the Arrangement, but this ought to be seen in the light of the large stocks that had been accumulated in the Community. In his view, international co-operation for solving the problems was essential for making progress in international trade in dairy products. In this context, he pointed out that the Arrangement ought to be perfectly balanced. Out of the three existing Protocols, two contained clauses of derogation from the price provisions, while the third did not have similar clauses. Other participants had taken considerable advantage of the non-appliance clauses. A balance should be aimed at for all types of problems and questions, e.g. regarding submission of information, and co-operation when a participant had difficulties with the observance of certain provisions. If a participant could not obtain the help he asked for, he might be tempted to resolve his problems on his own in a manner one could only imagine. He recalled that a Community suggestion concerning disposal of old butter had been under discussion for four months without a consensus having yet been reached. He invited the members of the Council to reflect on what he had said on earlier occasions and not to attack the Community constantly for lack of observance of the provisions of the Arrangement.

16. The representative of Poland stressed the advantages of participating in the Arrangement. The benefits in terms of exchange of information, consultations, and discussion of common interests to stabilize the world dairy market were important enough to justify participation in the Arrangement. He suggested that more attention should be devoted to the quality of the information, its accuracy and timeliness, and to possible improvements. He was nevertheless disillusioned and alarmed with the events of 1984 which made him fear that major participants could get away with unilateral steps and thus create a double standard, one for the big and one for the small.

Finally, he drew the attention of the Council to the fact that what was achieved under the Arrangement was likely to shape the perception of traders who often had significant influence through their advice given to governments.

17. The Council took note of the statements made.

Examination of the obstacles to acceptance of the Arrangement which contracting parties may have faced

18. The representative of the European Communities recalled that the Community had repeatedly invited Canada to join the Arrangement and had indicated clearly that it would give favourable consideration to a Canadian request for a reservation in order to take account of particular problems relating to sales in the Carribean region. He suggested that Canada might benefit from the present situation by joining, on favourable terms, as the main opponent to granting such terms to Canada was no longer participating in the Arrangement.

19. He doubted whether it would be necessary to have a further clarification of the position of the United States, as suggested in the secretariat paper. He recalled that the position of the United States had been discussed at earlier meetings, and that the United States withdrawal came subsequent to the sales by the Community of old butter to the USSR in 1984. It was also known from statements to the press by a member of the United States Government that the United States needed to dispose of surplus stocks of dairy products by exporting them, if necessary, with subsidies. So he wondered whether the reference to this in the secretariat paper was necessary.

20. A member of the secretariat explained that the reasoning given in the notice of withdrawal by the United States seemed to be slightly ambiguous. It was therefore considered useful to have an explanation from the United States as to which key provisions of the Arrangement had been invalidated and what the effect would be thereof. The secretariat had considered it useful to have an examination or discussion of the motives for recent withdrawals and had consequently included a suggestion to that end in the background note it had prepared.

21. The Council took note of the statements made.

Report of the meeting

22. In concluding the meeting, the Chairman recalled that when taking its action in November 1984, the CONTRACTING PARTIES had decided that the secretariat should consolidate the observations made and any conclusions reached in the Council, and provide a report for subsequent examination by the Working Group established for that purpose. He suggested that he should circulate shortly a Note by the Chairman (circulated in document L/5811) and that the secretariat should prepare a draft report of the meeting according to established procedure.

23. The Council agreed to these suggestions and the meeting was closed.