

TARIFFS AND TRADE

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International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

TWENTIETH SESSION

Draft Report

Chairman: Mr. K. Lillerud

1. The International Dairy Products Council held its twentieth session on 10 March 1989.
2. The Council adopted the following agenda:
  - A. Election of Chairman and Vice-Chairperson
  - B. Admission of observers under Rules 11 and 14 of the Rules of Procedure
  - C. Review of the functioning of the Arrangement
  - D. Evaluation of the situation in, and outlook for, the world market for dairy products
  - E. Note by the Chairman on the present meeting
- A. Election of Chairman and Vice-Chairperson
3. In accordance with Rule 2 of the Rules of Procedure, the Council elected Mr. K. Lillerud (Norway) as Chairman for 1989/90 and Mrs. J. Tyndall (New Zealand) as Vice-Chairperson.

4. In connection with the elections of Chairman and Vice-Chairperson, words of thanks and appreciation were expressed. The outgoing Chairman, Mr. T. Groser and Vice-Chairman, Mr. P. Huhtaniemi, were thanked for their whole-hearted efforts over two crucial years in the history of the Arrangement. The elected officers thanked the Council for the confidence they had been shown. Delegations were thanked for the efforts made to restore the credibility and effectiveness of the Arrangement, and the secretariat was thanked for services rendered.

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

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

6. 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. Accordingly he 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.

C. Review of the functioning of the Arrangement

Reports of the thirty-sixth and the thirty-seventh sessions of the Committees of the Protocols

7. The Council carried out a review of the functioning of the Arrangement as required by its Article IV:1(b). For this review the Council had before it the reports of the thirty-sixth sessions of the Committee of the Protocol Regarding Milk Fat, the Committee of the Protocol Regarding Certain Cheeses and the Committee of the Protocol Regarding Certain Milk Powders (DPC/PTL/2). A full report of these meetings had been approved recently and circulated as document DPC/PTL/3. Concerning the thirty-seventh sessions of the Protocol Committees, the Chairperson of the Committees presented an oral report to the Council.

8. The Committee of the Protocol Regarding Certain Milk Powders, the Committee of the Protocol Regarding Milk Fat and the Committee of the Protocol Regarding Certain Cheeses held their thirty-seventh sessions on 9 March 1989.

9. The Committees were required by the Rules of Procedure to elect their Chairman and Vice-Chairman. Mrs. J. Tyndall (New Zealand) was elected Chairperson for 1989/90; no election of the Vice-Chairmanship was held.

10. After examining the replies to the questionnaires, the Committees considered the market situation for the products covered by the Protocols. Some information and comments regarding milk production and dairy policies were given in the Committees. With regard to the products covered by the Protocols, the general situation was characterized by persisting strong import demand, the absence of surplus public stocks and by international prices remaining high, although levelling off early in 1989.

11. The Committees noted that in 1988, world skimmed milk powder production had fallen by 8 per cent to 3.8 million tons mainly as a result of reduced butter production. It was expected to remain at that level in 1989. World production of whole milk powder had continued to expand in 1988, reaching 2.18 million tons, about 4 per cent more than in 1987. It was projected to expand further in 1989 due to strong import demand. World butter production had again decreased in 1988, reaching 7.2 million tons, falling below the average level for 1981-83. This was mainly due to the decrease in Community production. However, world butter production might increase slightly in 1989 mainly due to projected increases in North America and the USSR. World cheese production had continued its upward trend in 1988, totalling 15 million tons. A further expansion was forecast for 1989.

12. In 1988, world consumption of skimmed milk powder had fallen, reflecting lower supplies and rising prices. Reduced supplies of skimmed milk powder were progressively replaced by whole milk powder notably for food. Consumption of whole milk powder had increased strongly in 1988 and

was developing further in 1989. Butter consumption had shown very little change on average. World per capita consumption of butter had been steady at 2.7-2.8 kgs. over the past ten years. However, in 1988, world consumption declined by 1.5 per cent and for 1989, the decline was forecast at 2 per cent. The upward trend in cheese consumption had continued in 1988. World per capita cheese consumption has been increasing at an average annual rate of 2 per cent since the early eighties, and may continue to increase at that rate.

13. World exports of skimmed milk powder had fallen sharply in 1988 and had been almost down to 1 million tons, slightly above their average level in 1981-83. Exports might be further reduced to around 800 thousand tons in 1989, and some developing importing countries would continue to face problems in covering their import requirements. The upward trend in whole milk powder exports had been 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 whole milk powder would in terms of volume be the most important dairy product in international trade. The European Communities and New Zealand remained the major suppliers to the world market. World exports of butter had totalled 1 million tons in 1988, an all time record level. A major part of this consisted however of special transactions at very low prices while the world market for normal commercial transactions will 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 had been due to higher imports into Japan and stronger import demand by OPEC countries and other developing countries such as Brazil. The general expansionary tendencies observed in the market for 1988 continued during 1989.

14. Reduced milk supplies and larger exports of dairy products had a considerable impact on stocks notably of butter and skimmed milk powder in 1988. At the end of 1988, the surplus stocks of dairy products which had depressed the market for years, had been entirely disposed of. While there could be some rebuilding of butter stocks in 1989, stocks of skimmed milk powder would most likely remain low.

15. Reduced supplies and lower carry-over stocks helped maintain prices at a reasonably high level, although in the first quarter of 1989 some prices were down compared to late 1988.

16. International prices for milk powders showed steady improvement throughout 1988. Quotations remained well above the agreed minima and no sales, even of powder for feed purposes, were reported to have been made at prices below the agreed minima. The world market prices for skimmed milk powder nearly doubled over the year 1988, and were at the end of the year more than three times their level in 1985. The market for butter and anhydrous milk fat improved in 1988.

17. During the first quarter of 1989, prices of skimmed milk powder levelled off ranging between US\$1,700 and US\$1,850 per ton f.o.b. and those of whole milk powder between US\$1,800 and US\$1,900 per ton f.o.b. In spite of a levelling off in prices, the market reflected the effects of the tightening supply situation and was expected to remain firm in 1989. Prices for fresh butter in the first quarter of 1989 were between US\$1,750 and US\$1,850 per ton f.o.b. and those of anhydrous milk fat ranged between US\$1,900 and US\$2,200 per ton f.o.b. A further improvement in prices was observed for fresh butter in early 1989. Cheese prices which increased throughout 1988 levelled off however early in 1989. In January-March 1989, quotations for Cheddar were in the range of US\$1,900 to US\$2,400 per ton f.o.b., thus remaining well above the agreed minimum export price.

18. Major factors leading to the improvements in the dairy market were reduced supply pressures, the decline in the value of the US dollar, the general rise in commodity prices and increased demand mainly due to the improved economic and trading prospects of many of the developing countries who account for most of the dairy imports. The improved market situation entailed some reduction in export subsidies. There was little or no evidence of consumer's reaction to the higher prices and dairy products were in general selling well in all the major markets at the beginning of 1989.

19. Regarding sales under derogations, the Committee of the Protocol Regarding Milk Fat took note that the EC had not effected any sales of butter oil to Bangladesh under the Decision of 22 March 1988 (DPC/F/55). It also took note that deliveries of old butter to the USSR under the Decision of 12 July 1988 (DPC/F/58) had been completed by the end of 1988 and heard a final report by the EC on sales under all derogations granted for exports of old butter. Taking into account the evolution of the situation of the international market, it was hoped that the era of derogations for butter sales was definitely over.

20. The Committee of the Protocol Regarding Certain Cheeses took note that no sales were made in the fourth quarter of 1988 under Article 7:2 of the Protocol.

21. The next sessions of the Committees will be held on 19-20 June 1989, subject to confirmation by the secretariat.

22. The Council took note of the reports on the implementation of the Protocol Regarding Milk Fat, the Protocol Regarding Certain Cheeses and the Protocol Regarding Certain Milk Powders. The Council expressed its sincere thanks to the outgoing Chairman and the newly elected Chairperson of the Committees for their excellent work and for the reports.

#### Replies to Questionnaire 4

23. The Chairman recalled that according to Rule 23 of the Rules of Procedure, annual data concerning milk and dairy products other than those covered by the Protocols, should be furnished two and a half months at the latest after the end of the period concerned. The secretariat had circulated on 13 February 1989, an invitation to submit replies, inter alia, to Questionnaire 4. At the time of the meeting replies had been received from the following participants: Argentina, Australia, the European Communities, Finland, Hungary, New Zealand, Norway, Poland and Sweden.

24. The Council took note of the information received, which had been or would shortly be circulated in the DPC/STAT/- series, and the Chairman urged participants who had not yet submitted their replies to Questionnaire 4, to take the necessary steps to ensure that the relevant information would be submitted to the secretariat as soon as possible.

#### Replies to Questionnaire 5

25. 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 the inventory shall be distributed to participants at the beginning of each three-year period. As the Arrangement had entered its fourth three-year period of operation in January 1989, the inventory of measures affecting trade in dairy products would consequently be completely revised. Delegations should therefore take the steps necessary to ensure a timely submission to the secretariat of the relevant information. The inventory was being circulated in the DPC/INV/4/- series.

26. The Community representative apologized for not yet having submitted the complete information in reply to Questionnaire 5. He wanted to make a complete report this time, but had had to await the adoption of some important decisions with regard to policy changes and new prices; matters which were still being discussed in Brussels. He expected to be able to submit the information shortly, hopefully by 1 April 1989. Also the representative of Finland regretted that his reply had not arrived before the meeting, but confirmed that it would be submitted very soon.

27. The Council took note of DPC/INV/4/Rev.1 which showed the status of the inventory on 6 March 1989 and of notifications received subsequently from Argentina and Sweden, and of partial notifications received from Australia and the European Communities, which would shortly be circulated in the DPC/INV/4/- series, and noted the statements made by the Community and Finland. The Chairman urged participants that had not yet done so, to submit due notifications as soon as possible.

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

28. For its traditional evaluation of the situation in, and outlook for the world market for dairy products, the Council had before it various documentation prepared by the secretariat; namely a status report on the world market for dairy products (DPC/W/84), a note on food-aid operations relating to dairy products (DPC/W/86) and relevant statistical information (DPC/W/85), DPC/PTL/W/1, 2 and 3). The Chairman recalled that parts of the status report had been subject to consideration in the Committees of the Protocols, which had also reviewed the statistical information. Comments made in the Protocol Committees would be reflected in the report of the meetings, ultimately to be circulated in the DPC/PTL/- series, and would not necessarily have to be repeated in the Council. He invited delegates to make general comments on dairy policy matters and the market situation, but anyone should feel free to take up any specific points related to the market situation and the documentation, if this was desirable.

29. In reply to a question about the situation in the USSR, the secretariat, basing itself on information received from the Economic Commission for Europe, told the Council that in 1988, USSR milk production had reached 106.4 million tons, almost 3 per cent up on 1987. Yields per cow had increased by 4.3 per cent. Butter production amounting to 1.7 million tons in 1988 had increased by 3 per cent, while margarine production had fallen by a similar percentage to a total of 1.5 million tons. The output of cheese, and that of whole milk products (expressed in milk equivalents), had increased by 3 and 4 per cent, respectively.

30. The Community representative enquired about massive donations of butter by the United States to Poland and about Canadian exports of cheese to the United States. The representatives of Poland and Canada took note of the questions, which they would convey to their authorities and consequently provide answers to the questions whenever the information might be available.



31. As to the Status Report (DPC/W/84), the Community representative commended the secretariat for excellent work. He felt that the report reflected objectively the market situation.

32. In making his comments on the report, he drew attention to the figures in Table 3 which illustrated clearly that while Community production had been reduced in recent years this was not the case for some other major producing countries. The increase in world milk production observed at present, seemed to him to be a temporary phenomenon, notably as cow numbers were diminishing in OECD countries, although yields improved by 2 to 2.5 per cent a year. World market prices could decrease in 1989, but only moderately as consumption was increasing. In the long run the market equilibrium would depend on the policies applied. Support levels were high and continued to stimulate production. He believed that the increased milk prices to New Zealand producers might have an impact on milk production there. Development of dairy substitutes was at present a serious problem in the Community, creating uncertainty as to the stability of the dairy market. The growth in consumption in China, the USSR and many developing countries was apparently not strong enough to provide outlets for an increased world production.

33. The Community representative also commented upon the medium-term outlook for milk production in the area. Although he could not say anything at present about the application of quotas beyond March 1992, he expected annual milk deliveries to remain stable at a level of 98 million tons during the period 1990 to 1995. Structural changes were continuing and relatively more milk would be delivered to dairies, the percentage increasing from 90.8 in 1987 to 91.2 in 1993-95. Yields were expected to increase by 1.8 per cent a year and by 1995 reach 5,040 kgs. per cow and year. Cow numbers would continue to fall, in 1995 amounting to 21 million, 7 million cows less than in 1983, the last year before quotas were introduced. This reduction could be accentuated by further measures to encourage some farmers to give up milk production. Further improvement in yields and feeding techniques might however tend to increase production.

34. Community consumption of dairy products had, over the last ten years, increased by 0.5 per cent per year, but this was partly due to special measures taken to dispose of a milk fat surplus. Without such special measures, consumption would probably have increased by a mere 0.15 per cent. Butter consumption had diminished by 0.8 per cent a year, in spite of the measures taken to encourage consumption. In reality, the decline would have been 2.7 per cent a year, in the absence of such measures. Assuming that some measures were maintained to encourage consumption, Community human consumption of milk and dairy products would only reach 91.4 million tons in terms of milk equivalent by 1995.

35. Community stocks, notably intervention stocks of butter and skimmed milk powder had been strongly reduced in 1987 and 1988, notably as a consequence of the enormous efforts made to dispose of surplus stocks but also as a result of limitation of market intervention and reduced production. Butter stocks amounted at present to 140 thousand tons compared to 1.3 million tons at the end of 1986. Only 50 thousand tons was still available, as the rest had already been sold. This was merely what the Community needed to have at its disposal for food aid purposes, and no butter was as yet available for further commercial exports. In the case of skimmed milk powder, there were no stocks left.

36. The situation in the dairy market was indeed an unusual one, and 1989 appeared to be an exceptional year both for the European Communities and for the international community as a whole, with extremely low stocks. However, the risk persisted that the situation might deteriorate following steps taken in some producing countries. The Community representative nevertheless remained confident that the short-term outlook was indeed encouraging, but expressed concern about the long-term situation, as he could not exclude that climatic and monetary fluctuations might again cause difficulties to international dairy trade. A lot would depend on how the negotiations under the Uruguay Round developed. Higher prices to consumers might be detrimental to the level of consumption and he had noted concerns expressed by some importing developing countries regarding increased world market prices. Although the situation at present was quite satisfactory,

it was necessary to watch further developments carefully and remain vigilant if the situation should again deteriorate. The Arrangement had in the past proved to be an effective instrument for stabilizing the dairy market and for resolving problems arising.

37. The representative of Australia agreed that the present outlook should be an optimistic one, with prices stabilizing at reasonable levels for a number of product groups and were still rising for butter and butter oil. He recognized that the actions carried out by the European Communities to reduce stocks had been a significant factor in restoring the situation in the market. He felt it appropriate, however, to watch future developments closely and would have liked to see a mentioning in the Status Report of the Community SLOM programme adopted last January.

38. The Australian representative also expressed his appreciation for a very comprehensive report established by the secretariat which he in summary found to be an excellent one. He would nevertheless advance some ideas for items that might be taken up in future reports, such as comments on factors having impact on the level of consumption. He mentioned in particular trends in demand for soft cheeses, although he recognized this to be a sensitive area. The same applied to problems related to listeria, which might however prove to have a significant impact on the market, at least in the medium term. It might furthermore be interesting to include some kind of analysis of the impact output based support might have on production.

39. The Community representative confirmed that the SLOM programme was expected to result in an increase in the milk quota of 600 thousand tons (DPC/INV/4/Add.8), and found the pessimism expressed by other representatives in this regard to be excessive. Similar pessimistic views had been expressed when the Community had made special sales of butter to the USSR less than a year ago and subsequent developments had proved that the worries were unfounded. One proof of that was the prices at which some countries had recently contracted sales of butter to the USSR.

40. The Council took note of the Status Report (DPC/W/84), the note on food-aid operations (DPC/W/86) and of relevant statistical information compiled by the secretariat. The Council also noted the comments made under this item of the agenda.

E. Note by the Chairman on the present meeting

41. The Chairman recalled that according to a decision of 28 November 1979, the CONTRACTING PARTIES should receive adequate information on developments relating to the operation of the Arrangement (BISD 26S/201). He accordingly suggested the submission of the following Note by the Chairman:

"1. The International Dairy Products Council held its twentieth session on 10 March 1989.

2. Mr. K. Lillerud (Norway) was elected Chairman for 1989/90 and Mrs. J. Tyndall (New Zealand) was elected Vice-Chairperson of the Council. Mrs. Tyndall was also elected Chairperson of the Protocol Committees.

3. Under Rules 11 and 14 of the Rules of Procedure, the Council invited representatives of Panama and the Economic Commission for Europe, FAO, IMF, OECD and UNCTAD to attend the session as observers.

4. The Council reviewed the functioning of the Arrangement. It took note of reports on the implementation of the Protocol Regarding Milk Fat, the Protocol Regarding Certain Cheeses and the Protocol Regarding Certain Milk Powders.

5. The Council took note of the information submitted recently in reply to Questionnaires 4 and 5, concerning products not subject to the provisions of the Protocols and concerning domestic policies and trade measures and of comments made on this documentation. Participants that had not submitted all the information requested were urged to do so as soon as possible.

6. For its traditional evaluation of the situation in, and outlook for the world market for dairy products, the Council, in addition to the reports from the Committees of the Protocols, also had before it documents prepared by the secretariat, notably a status report on the world market for dairy products, a note on food-aid operations and relevant statistical information. The Council took note of the documents and comments made.

7. World milk production, which had declined by 0.8 per cent from 1986 to 1987, recovered in 1988 reaching almost its level of 1986. A further decline in milk deliveries in the Community and other European countries was more than outweighed by an increase in New Zealand milk production and that of the United States and Canada, and by further expansion in the USSR.

8. The immediate result of reduced milk deliveries in 1987 was a spectacular reduction in intervention stocks of butter and skimmed milk powder, notably in the European Communities and the United States. At the end of 1988, the surplus stocks of dairy products which had depressed the market for years, had been entirely disposed of.

9. There was an appreciable recovery in international trade in cheese and milk powders in 1987, and the trade, notably of cheese and whole milk powder, grew further in 1988, with prices continuing to firm up. In 1988, whole milk powder became the most important dairy product in international trade, in volume terms.

10. A recovery in butter trade in 1987 and 1988 was largely due to special sales of old butter or butter oil. Prices for fresh butter were firming and continued to do so in 1988/89. However, international trade in butter was expected to decline in 1989.

11. Reduced butter production entailed a significant reduction in supplies of skimmed milk powder but exports were partly maintained by lowering stocks and reducing the use for feed. Some developing countries nevertheless experienced difficulties in covering their import requirements of skimmed milk powder in 1988 and apparently sought to cover some of their needs through greater imports of whole milk powder. The world market prices for skimmed milk powder nearly doubled over the year 1988, and were at the end of the year more than three times their level in 1985.

12. Cheese production continued its upward trend in 1987 and 1988, absorbing nearly one quarter of world milk supplies. Developments were favoured by a persisting good demand for cheese. Increased cheese production entailed substantial supplies of whey and the efforts made to develop the market resulted in a good demand for whey as an ingredient in beverages and other foodstuffs.

13. Food aid in terms of dairy products was adversely affected by the decline in available supplies and higher market prices for dairy products and remained low in 1988.

14. Prices for most dairy products, although slightly inferior to their levels late in 1988, remained at a relatively high level in early 1989. For products covered by the Protocols of the Arrangement, they remained well above the agreed minimum export prices. A persisting tight supply situation for casein entailed a doubling of the world market price during 1988. The major factors leading to the higher prices in the dairy market were reduced supply pressures, the decline in the value of the US dollar, the general rise in commodity prices and increased demand mainly by many developing countries. The improved market situation entailed some reduction in export subsidies. Dairy products were in general selling well in all the major markets at the beginning of 1989.

15. During the deliberation of the Council, the view was expressed that the Arrangement had functioned well and contributed significantly to the satisfactory situation at present. However, it would be necessary to watch further developments carefully and remain vigilant if the situation should again deteriorate."

42. The Council agreed to the suggestion by the Chairman and the note was circulated in document L/6479, dated 13 March 1989.

43. The twentieth session of the International Dairy Products Council was then closed.