

GENERAL AGREEMENT ON

RESTRICTED

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International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

TWENTY-SEVENTH SESSION

Draft Report

Chairman: Mr. K. Luotonen

1. The International Dairy Products Council held its twenty-seventh session on 16 September 1992.
2. The Council adopted the following agenda:
 - A. Admission of observers
 - B. Review of the functioning of the Arrangement
 - C. Evaluation of the situation in, and outlook for, the world market for dairy products
 - D. Review of the Rules of Procedure
 - E. Report to the CONTRACTING PARTIES
 - F. Tentative schedule of further meetings
 - G. Note by the Chairman on the present meeting
- A. Admission of observers
3. The Council welcomed representatives of Brazil, Canada, Chile, the Republic of Korea and Mexico as observers, in accordance with Rule 10 of

the Rules of Procedure, which permitted contracting parties which were not signatories to the Arrangement to follow the proceedings of the Council in an observer capacity.

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

5. 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 had invited these organizations to participate in the present session as observers.

B. Review of the functioning of the Arrangement

Reports of the fiftieth and the fifty-first sessions of the Committees of the Protocols

6. 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 report of the fiftieth sessions of the 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/25). A full report of these meetings had been approved recently and circulated as document DPC/PTL/26. Concerning the fifty-first sessions of the Protocol Committees, the Chairman of the Committees presented an oral report to the Council.

7. 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 held their fifty-first sessions on 14 and 15 September 1992.

8. After examining the replies to the questionnaires, the Committees considered the market situation for the products covered by the Protocols. Information and comments regarding milk production and dairy policies were given in the Committees and will be recorded in the full report of the meetings.

9. The Committees noted that world butter and butter oil production had decreased by 4.5 per cent in 1991, amounting to 7.41 million tons and was estimated to decrease by a further 2.5 per cent in 1992. World cheese production grew by another 1 per cent in 1991 to 14.8 million tons and a further growth of the same order was apparent for 1992. World skimmed milk powder production decreased in 1991 by 3.5 per cent to 3.85 million tons and was projected to again drop by 6 per cent in 1992. World production of whole milk powder recovered appreciably in 1991 increasing by 5 per cent compared to 1990.

10. World consumption of butter declined by 2 per cent in 1991, with sharper decreases registered in particular regions. In the short and medium term, it was likely that this trend would continue or even accelerate. Cheese consumption for the major producing countries continued to expand, up 2 per cent in 1991, with a similar growth expected for 1992. World consumption of skimmed milk powder declined in 1991 and this downward trend has continued in 1992. Consumption of whole milk powder recovered in 1991.

11. Import demand for butter continued to weaken, reflecting a continued decline in milk fat consumption in many countries. As a result of a further deterioration of the market for butter, world exports in 1991 decreased to 698 thousand tons, 3 per cent below 1990 levels. World exports are expected to decline further in 1992, notably due to reduced commercial imports into Russia. World exports of cheese were up 2 per cent for 1991 and reached some 905 thousand tons. The outlook for 1992 was for a further growth of the same order. There was a further decline of 11 per cent in world exports of skimmed milk powder in 1991, when they amounted to

800 thousand tons. However, the outlook for 1992 was for an increase in international trade due to renewed interest from traditional customers. Exports of whole milk powder by major suppliers recovered strongly in 1991 and reached new record levels of 980 thousand tons.

12. Aggregate butter stocks in the EC, North America and Oceania on 1 July 1992, estimated at 740,000 tons, were 15 per cent lower than a year earlier. On the same date, skimmed milk powder stocks, at 360,000 tons, had decreased by as much as 48 per cent in relation to their level on 1 July 1991, mainly due to a decrease in Community and United States stocks. However, concerns were expressed that stocks of butter held in the United States were still high.

13. Prices for butter and anhydrous milk fat have remained depressed at, or only slightly above the agreed minimum prices in 1992, following a continued decline in butter consumption in many countries. Considerable uncertainty persisted regarding commercial import requirements of Russia. In addition, the price situation for milk fats in the coming months remains uncertain, notably as a non-participant in the Arrangement is offering substantial quantities of dairy products including butter at low prices and providing credit in several markets. Thus, the butter market remains fragile with only small sales being effected under normal commercial terms. The cheese market is characterized by balanced supplies and reasonably stable and firming prices. The market situation for milk powders, and particularly for skimmed milk powder, strengthened further in the first three quarters of 1992. The market remained firm mainly due to large purchases by major importers. The Committees noted that the progressive weakening of the United States dollar over the last six months had an important impact on international price levels for dairy products in general. However, future movements in exchange rates were difficult to assess, and implied considerable uncertainties as to further developments in international dairy prices.

14. For the third quarter of 1992, the following ranges of prices were reported (per ton f.o.b.):

- between US\$1,800 and US\$2,170 for skimmed milk powder for human consumption;
- between US\$1,750 and US\$2,100 for whole milk powder;
- between US\$1,350 and US\$1,800 for butter;
- between US\$1,625 and US\$2,200 for anhydrous milk fat;
- between US\$1,800 and US\$2,200 for Cheddar cheese.

15. The Committee of the Protocol Regarding Certain Cheeses took note of the information furnished by New Zealand regarding operations under Article 7:2 of the Protocol. The Committee also took note of the summary table regarding sales made in accordance with this provision (DPC/PTL/W/20/Rev.4).

16. The Committee of the Protocol Regarding Certain Milk Powders took note of the information furnished by New Zealand regarding operations under Article 3:5 of the Protocol. The Committee also took note of the summary table regarding sales made in accordance with this provision (DPC/PTL/W/40/Rev.5).

17. In conformity with Article 3:3(b) of each of the Protocols, the Committees reviewed the minimum export prices for products covered by the Protocols. New Zealand had submitted a written proposal well in advance of the meeting to increase the minimum prices specified under the Protocol Regarding Certain Milk Powders by US\$200 per ton f.o.b., indicating that such an increase was fully justified in light of the criteria of Article 3:3(b) (DPC/PTL/W/78). Some participants supported this proposal and urged immediate implementation. They noted that current IDA minimum prices for powders were too low to guarantee a viable return to the most economic producers. They further noted the long-term and sustained upward trend in the prices of milk powders and expressed their concern over the substantial difference between market prices and the IDA minima. However, others felt that the upward trend in the prices was largely due to the

decline in the United States dollar and that in light of the monetary uncertainties and the changes in the production and consumption patterns in certain countries, it would not be appropriate to modify minimum export prices at this time. Consequently, the present minimum export prices for the pilot products covered by the three Protocols were maintained unchanged. The Committees agreed to revert to this item at a later meeting upon request by a participant.

18. The next regular sessions of the Committees of the Protocols were envisaged to be held on 14-15 December 1992. The Committees took note of a preliminary programme of further regular meetings up to the end of 1993.

19. 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, expressing its sincere thanks to the Chairman of the Committees for his excellent work and for the reports.

20. The Council concluded that the International Dairy Arrangement was functioning to the general satisfaction of its participants and had proven to be a valuable instrument for maintaining the order in international dairy trade, notably through concerted disciplines relating to export price fixing and through actions taken to cope with problems occasionally occurring in particular markets.

Replies to Questionnaires 4 and 5

21. The Chairman recalled that on 10 August 1992, the Secretariat had circulated an airgram reminding participants to submit annual data in accordance with Rule 23 of the Rules of Procedure. A list of the replies to date to Questionnaires 4 and 5 is given in the Annex. He stressed that the provision of information was a basic obligation of IDA members and particularly important in light of the role of non-commercial transactions in world dairy trade at this time.

22. The representative of the EC stated that they had not yet submitted their response to Questionnaire 5 because policy changes affecting dairy had only recently been adopted, however the response would be submitted prior to the next meeting.

23. The Council took note of the information provided and the comments made.

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

24. For its evaluation of the situation in, and outlook for the world market for dairy products, the Council had before it various documents prepared by the Secretariat: a status report on the world market for dairy products (DPC/W/116 and Addendum 1), a note on food-aid operations relating to dairy products (DPC/W/118), and relevant statistical information (DPC/W/117, DPC/PTL/W/79, 80 and 81). Part of the status report and the relevant statistical information had been subject to consideration in the Committees of the Protocols. Comments made in the Protocol Committees will be reflected in the report of the meetings (to be circulated in the DPC/PTL/- series). A number of delegations congratulated the Secretariat for the quality of the Status Report.

25. The representative of the EC noted that the market situation for butter and butter oil were still of concern. Although world prices for milk powders and cheeses were currently high, this was largely due to the unprecedentedly low value of the United States dollar and the draw-down of milk powder stocks through exceptional sales to Mexico and Algeria. However, the value of the United States dollar was likely to change in the coming months and some importing developing countries were increasing their own production. He also observed that the reported decline in world milk production was due to the drop in production levels in the EC, Switzerland, the Nordic countries and Eastern European countries. In contrast, New Zealand, Australia and the United States had not contributed to the stabilization of world production but had instead increased their milk output.

26. The representative of Australia indicated that based on 1981 dollar values, the decline in the United States dollar accounted for only 13-15 per cent of the current high price levels. The major factor was a long-term change in market structures, based on a continuing increase in demand for milk powders, in contrast to butter. Production responses to actual price movements were not irresponsible. The New Zealand representative agreed that a market-oriented response would see increased production in response to higher prices in countries where production was viable, and a decreasing production trend in non-viable producing countries. He noted that this long-term trend would not be steady because of policy-induced interruptions, but would prevail in the long term.

27. The representative of the EC observed that as the basis of the market was supply and demand, the availability of too large supplies, or of decreased demand, would drive down prices. This was why some countries, such as India, were increasing their production. He argued that it was necessary to stabilize production factors. Although European producers might be less efficient than in some other areas of the world, social, employment and supply needs justified their continued existence. With higher production costs, higher prices were required. He noted that consumption was declining in developed countries because of reduced fats intake, while it had sharply fallen in the former Soviet Union (previously the largest importer) and other Eastern European countries because of declined purchasing power. Another element of uncertainty was the outcome and effects, in both short and medium term, of the Uruguay Round negotiations. The current high price situation of world markets could not be sustained.

28. The Australian representative noted that although production would respond to price changes, he did not agree that production should be controlled in order to influence prices. The purpose of the IDA minimum prices was to stabilize the markets in time of sharp downturns. Conclusion of the Uruguay Round should also contribute to increased stability. He further observed that consumption was declining only for milk fats, but there was a long-term increase in demand for milk proteins. In response to

a hypothetical question as to what the situation would be if the EC had not reduced production and was subsequently producing 140 million tons annually, he indicated that one should instead question what the situation would be if the EC had been producing at market price levels. It was clear that the basic problem was with structural surpluses in the EC, which the EC was now making efforts to reduce.

29. The representative of the EC noted that the production of skimmed milk powder resulted in production of milk fats, and furthermore that high-priced milk powders could not compensate for the loss of markets for low-priced butter. Had the EC produced at market prices, he maintained that famine would have been the result.

30. The observer from the Economic Commission for Europe reported that with regard to the Russian Federation, an increase there in butter production to 734 thousand tons reduced its interest as a potential market. In contrast, however, there had been a major drop in milk powder production and a large market thus existed for that product.

31. The Council took note of the status report on the world market for dairy products (DPC/W/116 and Addendum 1), notes on food-aid operations and on milk deliveries, and the statistical information provided, as well as 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 thirteenth annual report of the International Dairy Arrangement.

D. Review of the Rules of Procedure

32. The Council undertook a review of the Rules of Procedure on the basis of a note prepared by the Secretariat (DPC/W/115). Participants generally agreed that the Rules, which were adopted in February 1980, were in need of some up-dating and revision. However, most participants indicated that it

would be appropriate, if not necessary, to review the IDA and the Rules of Procedure subsequent to the completion of the Uruguay Round negotiations.

33. With respect to specific modifications, some participants indicated that they did not wish to see the frequency of meetings reduced. The representative of the EC, and the representative of Australia, indicated that they could not agree to reduce the period provided for comments on the report of Council meetings. The representative of the EC further voiced opposition to changing the procedures for separate election of a Vice-Chairman of the Protocol Committees.

34. Although a number of participants indicated that a review of the procedures with respect to questionnaires was warranted, it was suggested that as no immediate change was required, it would be appropriate to undertake such a review in conjunction with a review of the formats for all questionnaires. To this end, the EC suggested that a task force might be established at a future date.

35. The Council agreed to immediately revise Rule 11 of the Rules of Procedure by deleting the words "which participated in the Multilateral Trade Negotiations". It was noted that this change was fully consistent with the provisions of the text of the Arrangement, and would permit participation in the work of the Council of a number of countries with particular interest in the international market for dairy products, including the republics of the former Soviet Union.

E. Report to the CONTRACTING PARTIES

36. 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. The Council agreed that the Chairman should submit, on his own responsibility, a concise factual report to the CONTRACTING PARTIES on the activities of the International Dairy Products Council and of the Protocol Committees since the 1991 session of the CONTRACTING PARTIES.

F. Tentative schedule of further meetings

37. 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). The Council adopted the following tentative schedule of meetings, which remained subject to confirmation by the Secretariat:

1992

14-15 December Committee of the Protocol Regarding Certain Milk Powders
Committee of the Protocol Regarding Milk Fat
Committee of the Protocol Regarding Certain Cheeses

1993

15-16 March Committee of the Protocol Regarding Certain Cheeses
Committee of the Protocol Regarding Certain Milk Powders
Committee of the Protocol Regarding Milk Fat

17 March International Dairy Products Council

14-15 June Committee of the Protocol Regarding Milk Fat
Committee of the Protocol Regarding Certain Cheeses
Committee of the Protocol Regarding Certain Milk Powders

20-21 September Committee of the Protocol Regarding Certain Milk Powders
Committee of the Protocol Regarding Milk Fat
Committee of the Protocol Regarding Certain Cheeses

22 September International Dairy Products Council

13-14 December Committee of the Protocol Regarding Certain Cheeses
Committee of the Protocol Regarding Certain Milk Powders
Committee of the Protocol Regarding Milk Fat

G. Note by the Chairman on the present meeting

38. The Council agreed that the Chairman should circulate a brief report of the Council meeting, which was distributed as L/7083.

H. Date of the next regular session

39. The next regular session of the Council is tentatively scheduled for 17 March 1992.

ANNEXQuestionnaire 4

Replies to Questionnaire 4 received as of 16 September 1992 were the following:

Argentina	DPC/STAT/13/Add.40, 41 and 42
Australia	DPC/STAT/12/Add.25
Canada	DPC/STAT/3/Add.28
European Economic Community	DPC/STAT/11/Rev.15
Finland	DPC/STAT/9/Add.12
Japan	DPC/STAT/7/Add.12
New Zealand	DPC/STAT/10/Add.25
Norway	DPC/STAT/5/Add.12
Poland	DPC/STAT/19/Add.16 and 17
South Africa	DPC/STAT/15/Add.11
Sweden	DPC/STAT/2/Add.13
Uruguay	DPC/STAT/18/Add.31

Questionnaire 5

On 16 September 1992 the inventory included the following:

Argentina	DPC/INV/5/Add.9
Australia	DPC/INV/5/Add.3 and Suppl.1
Canada	DPC/INV/5/Add.2
Finland	DPC/INV/5/Add.7
Hungary	DPC/INV/5/Add.6
Japan	DPC/INV/5/Add.5
New Zealand	DPC/INV/5/Add.1
Norway	DPC/INV/5/Add.8
South Africa	DPC/INV/5/Add.4
Uruguay	DPC/INV/5/Add.10