

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

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International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

TWENTY-NINTH SESSION

Draft Report

Chairman: Mr. Jorge A. Ruiz

1. The International Dairy Products Council held its twenty-ninth session on 28 September 1993.
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. Report to the CONTRACTING PARTIES
 - E. Tentative schedule of further meetings
 - F. Note by the Chairman on the present meeting
 - G. Date of the next regular session
- A. Admission of observers
3. The Council welcomed the representative of Canada, in accordance with Rule 10 of the Rules of Procedure, which permits contracting parties which are not signatories to the Arrangement to follow the proceedings of the Council in an observer capacity.

4. The Council considered the request for observer status by the representative of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (hereinafter referred to as "Chinese Taipei"). The Council decided that Chinese Taipei should be invited to participate in an observer capacity in the work of the International Dairy Arrangement, in light of the participation of Chinese Taipei as an observer in the Council of Representatives of the GATT CONTRACTING PARTIES. The Council confirmed that the invitation to Chinese Taipei for this purpose was without prejudice to the position of any participant to the Arrangement with respect to the legal status of Chinese Taipei.

5. As had been agreed by the Council since September 1984, the Economic Commission for Europe, FAO, OECD and UNCTAD had been invited to participate as observers at sessions of the Council. Representatives from the Economic Commission for Europe and the FAO were present.

B. Review of the functioning of the Arrangement

Reports of the fifty-fourth and fifty-fifth 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 VI:1(b). For this review the Council had before it the report of the fifty-fourth 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/31). A full report of these meetings had been approved recently and circulated as document DPC/PTL/33. Concerning the fifty-fifth sessions of the Protocol Committees, an oral report to the Council was distributed.

7. 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 fifty-fifth sessions on 27 and 28 September 1993. After examining the replies to the questionnaires, the Committees reviewed the market situation for 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.

8. The Committees noted that in 1992 world production of skimmed milk powder decreased by 8 per cent to 3.55 million tons and was projected to again drop by 5 per cent in 1993. World production of whole milk powder in 1992 was estimated to have remained at the 2.27 million ton level achieved in 1991. World butter and butter oil production had declined by 2.5 per cent in 1992, amounting to

7.03 million tons and was estimated to decrease by a further 2 per cent in 1993. World cheese production (all kinds including curd) grew by 5.5 per cent in 1992 to 15 million tons and a further 1 per cent growth was expected in 1993.

9. World consumption of skimmed milk powder continued to decline in 1992, as production dropped and world prices remained relatively high. Having dropped by 2 per cent in 1991, world butter consumption continued to drop in 1992 and a further decline was likely in 1993. Factors contributing to the reduction in demand included reduced purchasing power in Central and Eastern Europe, dietary concerns and the recession in the Western economies. World cheese consumption continued its long-term growth trend of about 2 per cent per year, and was expected to do so beyond 1993.

10. After declining in recent years, world exports of skimmed milk powder increased by 12.5 per cent to 900 thousand tons in 1992. World whole milk powder exports are estimated to have further risen in 1992 to 990 thousand tons. With the disappearance of the former Soviet Union as the major market for butter, world butter exports continued their diminishing trend in 1992, falling by about 12 per cent to 600 thousand tons. However, butterfat exports from the United States rose sharply in 1992. The increase in United States exports was largely the result of special credit-guarantee sales to Russia and of the Dairy Export Incentive Program (DEIP). In June 1993, the Committee of the Protocol Regarding Milk Fat granted a derogation from the minimum price provisions of the Protocol for butter and butter oil exports to countries of the former Soviet Union, up to a maximum of 50 thousand tons per participant, under contracts concluded before 31 December 1993 and for deliveries before 31 March 1994. World cheese exports reached 905 thousand tons in 1992, remaining at the same level as a year earlier. World cheese trade was expected to grow in 1993.

11. World stocks of skimmed milk powder decreased substantially in 1992, reflecting successful efforts to reduce production and increase exports thanks to high world market prices. By the end of 1992, stocks were low in all major producing countries. Stocks continued to remain low in the middle of 1993. World butter stocks declined by 8 per cent during 1992 to reach 988 thousand tons at year's end. In mid-1993, stocks of butter in the main producing countries remained high, even if substantially below 1992's level, and concerns about their level were raised. On 1 January 1993, world cheese stocks were 4 per cent lower than a year earlier, and a further decline was projected for the end of 1993.

12. In 1992, increased import demand for milk powders from a number of traditional buyers maintained prices for both skimmed milk and whole milk powder at relatively high levels. In the first

half of 1993, the market for milk powders was characterized by slightly lower prices and reduced demand in part due to exchange rate movements. Indications were that skimmed milk powder prices might stabilize during the remainder of 1993. As regards the butter market, weak international demand led to a further drop in world prices in the first half of 1993, with few sales reported. Butter prices would continue to be under pressure during the remainder of 1993 and into 1994. International Cheddar cheese prices remained steady in the first half of 1993. With demand for cheese growing more rapidly than production, cheese prices were expected to remain high for the remainder of 1993.

13. In the third quarter of 1993, the world market situation for butter and butter oil remained depressed, with demand very low and non-commercial sales continuing to have a negative effect on commercial demand. Prices of milk powders had weakened mainly as a result of exchange rate movements, the availability of some powders at lower prices, and somewhat lower demand than expected. In contrast, demand remained strong for cheese, and prices remained firm.

14. For the third quarter of 1993, the following price ranges were reported (per ton f.o.b.):

- between US\$1,400 and US\$1,650 for skimmed milk powder for human consumption;
- between US\$1,350 and US\$1,650 for whole milk powder;
- between US\$1,350 and US\$1,550 for butter;
- between US\$1,625 and US\$1,750 for anhydrous milk fat;
- between US\$1,800 and US\$2,150 for Cheddar cheese.

15. The Committee of the Protocol Regarding Milk Fat took note of the notifications furnished by Poland, Finland and Hungary pursuant to the Decision taken on 22 June 1993 under Article 7:1 of the Protocol.

16. 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.

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. There was no consensus at this time to make any changes in the minimum prices.

18. The next regular sessions of the Committees were scheduled for 13 and 14 December 1993 subject to changes as necessitated by the multilateral trade negotiations.

19. The Council took note of the report on the implementation of the Protocol Regarding Certain Milk Powders, the Protocol Regarding Certain Milk Fat and the Protocol Regarding Certain Cheeses, expressing its sincere thanks to the Chairman of the Committees for his excellent work and for the reports. It also noted the comments made under this agenda item.

20. Members of the Council undertook informal discussions with respect to a number of issues relevant to the functioning of the Arrangement. An informal note by the Secretariat was discussed (DPC/W/126), as well as documents presented by Australia (DPC/W/127) and New Zealand (DPC/W/128), regarding the functioning of the Arrangement. The Chairman agreed to organize further informal consultations at an appropriate time.

21. The Council requested the Chairman to communicate to the FAO Consultative Sub-Committee on Surplus Disposal their concern about the need to ensure that food aid and concessional sales did not adversely affect commercial sales opportunities. The Secretariat was asked to undertake a review of procedures for monitoring compliance with the minimum price provisions of the Arrangement.

Replies to Questionnaires 4 and 5

22. The Chairman recalled that with respect to data on milk and dairy products other than those covered by the Protocols, the Secretariat had circulated an airgram on 16 August 1993, requesting annual data or updates on previous replies.

23. The Chairman also 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 of measures affecting trade in dairy products should be distributed to participants at the beginning of each three-year period. The Arrangement entered its fifth three-year period of operation on 1 January 1992, and the inventory should consequently be completely revised.

24. A list of the replies to date to Questionnaires 4 and 5 is given in the Annex. The Council took note of the documentation and of the comments made.

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

25. For its traditional 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/123), a note on food-aid operations relating to dairy products (DPC/W/125), and relevant statistical information (DPC/W/124, DPC/PTL/W/95, 96 and 97). Parts 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.

26. The Council took note of the documents provided, as well as the comments and suggested changes made under this item of the agenda. The Council agreed that the status report, updated and amended as appropriate, be circulated as the fourteenth annual report to be distributed in November.

D. Report to the CONTRACTING PARTIES

27. 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 1992 session of the CONTRACTING PARTIES.

E. Tentative schedule of further meetings

28. 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 remain subject to confirmation by the Secretariat:

1993

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

1994

21-22 March Committee of the Protocol Regarding Certain Milk Powders
 Committee of the Protocol Regarding Milk Fat
 Committee of the Protocol Regarding Certain Cheeses

23 March International Dairy Products Council

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

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

21 September International Dairy Products Council

12-13 December Committee of the Protocol Regarding Certain Milk Powders
 Committee of the Protocol Regarding Milk Fat
 Committee of the Protocol Regarding Certain Cheeses

F. Note by the Chairman on the present meeting

29. The Council agreed that the Chairman should circulate a brief report of the Council meeting, which was distributed as document L/7295.

G. Date of the next regular session

30. The next regular session of the Council is tentatively scheduled for 23 March 1993.

ANNEX

Questionnaire 4

Replies to Questionnaire 4 received to date are the following:

Argentina	DPC/STAT/13/Add.43
Australia	DPC/STAT/12/Add.27
Canada	DPC/STAT/3/Add.30 and Add.31
European Community	DPC/STAT/11/Rev.16
Finland	DPC/STAT/9/Add.13
Hungary	DPC/STAT/1/Add.12
Japan	DPC/STAT/7/Add.13
New Zealand	DPC/STAT/10/Add.26
Norway	DPC/STAT/5/Add.13
Poland	DPC/STAT/19/Add.20
Romania	DPC/STAT/17/Add.1
South Africa	DPC/STAT/15/Add.12
Sweden	DPC/STAT/2/Add.14
Switzerland	DPC/STAT/8/Add.13
Uruguay	DPC/STAT/18/Add.33

Questionnaire 5

Replies to Questionnaire 5 received to date are the following:

Argentina	DPC/INV/5/Add.9 and Suppl.1
Australia	DPC/INV/5/Add.3 and Suppl.1
Canada	DPC/INV/5/Add.2
European Community	DPC/INV/5/Add.13
Finland	DPC/INV/5/Add.7 and Suppl.1
Hungary	DPC/INV/5/Add.6 and Suppl.1
Japan	DPC/INV/5/Add.5
New Zealand	DPC/INV/5/Add.1
Norway	DPC/INV/5/Add.8
Romania	DPC/INV/5/Add.12
South Africa	DPC/INV/5/Add.4 and Suppl.1
Sweden	DPC/INV/5/Add.11
Switzerland	DPC/INV/5/Add.14
Uruguay	DPC/INV/5/Add.10