

WORLD TRADE ORGANIZATION

RESTRICTED

IDA/5

13 February 1996

(96-0524)

International Dairy Agreement

INTERNATIONAL DAIRY COUNCIL

SECOND SESSION

Report

Chairperson: Ms. Brid Cannon

1. The International Dairy Council held its second session on 17 October 1995.
2. The Council adopted the following agenda:
 - A. Admission of observers
 - B. Evaluation of world dairy market situation
 - Report of the session of the Committee on Certain Milk Products
 - Status Report (IDA/W/7)
 - Summary Tables (IDA/W/8 and IDA/CMP/W/6)
 - Replies to Questionnaires 4 and 5
 - C. Functioning of the Agreement, including its future operation
 - D. Adoption of questionnaires (IDA/W/5)
 - E. Financial implications of decisions by WTO Bodies (WT/L/76)
 - F. Calendar of Council and Committee meetings for 1996
 - G. Other business

Admission of observers

3. The Council welcomed signatories of the Agreement including those who have not yet ratified (Brazil, Chad and Hungary). The Council welcomed representatives from Australia, Canada, Costa Rica, Korea and Mexico, in accordance with Rule 10 of the Rules of Procedure, which permits Members of the WTO not signatories to the Agreement to follow the proceedings of the Council in an observer capacity.
4. In accordance with Rule 11 of the Rules of Procedure the Council may invite non-signatory countries not Members of the World Trade Organization to participate in the meetings of the IDA in an observer capacity. At this session, the Council welcomed the representative of Chinese Taipei.

5. The Council also extended an invitation, in accordance with Rule 14 of the Rules of Procedure, to the Economic Commission for Europe, FAO, OECD and UNCTAD to participate as observers at sessions of the Council to the Agreement. At this session, the Council welcomed the representative from the FAO.

Evaluation of world dairy market situation

Report on the third Session of the Committee on Certain Milk Products

6. Concerning the third session of the Committee on Certain Milk Products, the Chairperson of the Committee presented the following oral report to the Council.

7. The Committee on Certain Milk Products held its third session on 16 October 1995.

8. After examining the replies to the questionnaires, the Committee reviewed the market situation for products covered by the Annex on Certain Milk Products. Information and comments regarding milk production and dairy policies were given in the Committee and will be recorded in the full report of the meeting.

9. The Committee noted that world production of skimmed milk powder declined in 1994, particularly in European countries. Whole milk powder production continued to increase. World butter and butter oil production continued its long-term diminishing trend. World cheese production continued to expand in 1994.

10. World consumption of skimmed milk powder continued to decline in 1994, as world prices remained relatively high. World butter consumption appeared to have levelled off after a long-term decline. World cheese consumption continued its long-term growth trend.

11. World exports of skimmed milk powder recovered slightly in 1994 and those of whole milk powder also increased. World exports of butter are estimated to have declined further, but there was a notable surge in Russian import demand in the closing months of 1994 and into early 1995. Cheese exports increased in 1994.

12. World skimmed milk powder stocks increased in 1994. However, in the middle of 1995 stocks were substantially lower than one year earlier. It appears likely that stocks will remain low, at least for 1995. World butter stocks were 10 per cent lower at the end of 1994 than one year previously, and a further substantial decline is expected in 1995. On 1 January 1995, stocks of cheese in the main producing countries were lower than a year earlier. Cheese stocks are forecast to remain relatively low as the domestic consumption and exports of most major cheese producers are expected to grow faster than production.

13. Since the middle of 1994, prices for all the main dairy products have increased. The two principal factors have been the reduced export supplies since mid-1994 and the low value of the United States dollar. In addition, strong demand for butter in December 1994 and January 1995 drove up international prices for milk fat and they have subsequently remained at these high levels. For the rest of 1995, it is expected that limited export supplies and low stocks will continue to sustain international prices.

14. In the third quarter of 1995, the world market situation for all products remained very firm. Slight increases in butter production in some countries have been offset by increased consumption and manufacturing use. World butter stocks remained at low levels and world prices continued at high levels. Increased demand for milk powders, either for export or domestic use, coupled with reduced

stocks levels, underpinned high world market prices. The world cheese market has remained steady, with stock accumulations in some markets resulting in a less buoyant market situation.

15. For the third quarter of 1995, the following price ranges were reported (per ton f.o.b.):

- between US\$2,150 and US\$2,380 for skimmed milk powder for human consumption;
- between US\$2,200 and US\$2,480 for whole milk powder;
- between US\$2,100 and US\$2,550 for butter;
- between US\$2,350 and US\$2,750 for anhydrous milk fat;
- between US\$2,150 and US\$2,500 for Cheddar cheese.

Status Report

16. 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: the Status Report on the world market for dairy products (IDA/W/7), a table on milk deliveries (IDA/W/8), summary tables on the products covered by the Annex on Certain Milk Products (IDA/CMP/W/6) and a note on food aid (IDA/W/9). Since the discussions in the Committee concerned those sections of the Status Report which deal with milk powders, butter and cheese (which will be reflected in the report of that meeting), the Council focused on other sections of the Status Report.

Replies to Questionnaires 4 and 5

17. The Chairperson recalled that annual data on milk and dairy products other than those covered by the Annex on Certain Milk Products was to be provided in Questionnaire 4 according to Rule 23 of the Rules of Procedure. The Secretariat had circulated an airgram on 15 August 1995 reminding participants to submit their responses. The Council took note of the checklist of replies to Questionnaire 4 (IDA/W/10) as well as of replies subsequently received from Brazil, Japan and Norway.

18. The Council took note of the checklist of replies to Questionnaire 5 (IDA/INV/1/Rev.1) as well as the replies received from Norway and Japan which were not in the checklist. The Chairperson noted that to date only three Parties had replied to Questionnaire 5. Article III:3 of the International Dairy Agreement stipulates that Parties shall provide information on their domestic policies and trade measures, and on their bilateral, plurilateral or multilateral commitments in the dairy sector and shall make known, as early as possible, any changes in such policies and measures that are likely to affect international trade - with the proviso that Parties are not required to disclose confidential information. Under Rule 23 of the Rules of Procedure, participants have agreed to submit this information, in the format of Questionnaire 5, within four months following the entry into force of the Agreement, or within four months following their acceptance of the Agreement. The Chairperson urged signatories to rapidly comply with this requirement.

19. Concluding the dairy market review, the Council took note of the Status Report, other documents and related statistical information, of amendments suggested concerning these documents, and of other comments made.

20. The Council agreed that the Status Report (IDA/W/7) as amended and completed in light of more recent information and taking account of the comments made, be released for distribution to WTO members and for all others who were interested as the First Annual Report of the International Dairy Agreement. Due to budgetary constraints, this report would probably not be presented as a sales publication, but would be publically available on request.

Functioning of the Agreement, including its future operation

21. The Chairperson recalled that the Agreement had to date only 9 Parties. Certain major dairy exporting countries were not party to the Agreement. Importantly, Australia had now taken a final decision not to adhere to the Agreement. Consequently, the adherence to minimum export prices was untenable. Furthermore, it was unlikely that major dairy trading countries which were not Parties would actively contribute to the exchange of information in this forum, with the exception of Canada.

22. There appeared to be three possible avenues open to the Council: first, continue to operate the Agreement as it was; second, suspend the operation of the minimum price provisions; third, suspend the operation of the Agreement in its entirety. Under the current circumstances, the first option was not realistic. Too many Parties to the Agreement would find it impossible to ensure respect of the minimum export prices if their major competitors were not bound by the same restraints. On the other hand, it was also clear that many Parties believed that the Agreement might have some useful role to play as a forum for the exchange of information, which would make the third option perhaps too extreme, or at least premature.

23. The second option (suspension of minimum price provisions) could be done through a Decision by all Parties to this Agreement. Minimum prices for some products had been suspended in the past through such decisions. Under the circumstances, suspension of the minimum price provisions could be accomplished by the suspension of the operation of the Annex on Certain Milk Products, as the entirety of the Annex relates to the minimum price provisions. As a consequence of this, the Committee on Certain Milk Products should also be suspended, as its role was "... to carry out all the functions which are necessary to implement the provisions of the Annex." (Article VII:2(a)).

24. The Council adopted a Decision which was circulated as document IDA/3 dated 17 October 1995. The text of the Decision is annexed to the present report.

25. Following the adoption of the Decision, the Council agreed that the report of the Committee's final meeting would be circulated for comments and adoption following the same procedures used for the Council's reports (Rule 8 of the Rules of Procedure).

Adoption of questionnaires (IDA/W/5)

26. The Council adopted formats for Questionnaires 1-5, regarding information to be furnished under Article III of the Agreement (IDA/4). It was noted that Parties to the Agreement were to make best endeavours to submit the information as requested in March and September of each year.

Financial implications of decisions by WTO Bodies (WT/L/76)

27. The Council took note of a communication dated 21 July 1995, from the Chairman of the General Council to the Chairpersons of all WTO Bodies regarding the procedure for decisions having financial implications which may be taken by WTO Bodies (WT/L/76).

Calendar of Council and Committee meetings for 1996

28. In light of the Decision adopted under agenda item C (IDA/3), the Council decided to schedule its regular meetings for 1996 on 19 March 1996 and 17 September 1996. It was noted that these dates remained subject to later confirmation and modification, if necessary.

Other business

Report to the General Council

29. The Council agreed that in accordance with Article IV:8 of the WTO Agreement, the Chairperson would submit to the General Council a brief report on her own responsibility, providing a resumé of the activities and considerations of the Council in the first year of operation of the International Dairy Agreement. This report was subsequently distributed as document WT/L/90.

Chairperson's note of the meeting

30. The Chairperson presented a brief report of the Council meeting. The report by the Chairperson was subsequently distributed as document WT/L/89.

ANNEX

INTERNATIONAL DAIRY COUNCIL

Decision of 17 October 1995

1. At its meeting on 17 October 1995, the International Dairy Council (the "Council") reviewed the functioning of the International Dairy Agreement (the "Agreement") pursuant to Article IV:1(b) of the Agreement.
2. The Council recalled that the Parties to the Agreement were subject to the minimum export prices as specified in the Annex on Certain Milk Products. However, given the limited membership of the Agreement the Council considered that adherence to minimum export prices was untenable.
3. In light of these considerations, the Council decided to suspend the application of the Annex on Certain Milk Products and the functioning of the Committee on Certain Milk Products until 31 December 1997. This Decision will take effect on 18 October 1995.
4. The Council agreed to review the market situation for dairy products at its regular meetings. For this purpose Parties would submit the information requested in Questionnaires 1-4 in advance of each Council meeting.
5. The Council agreed to review the functioning of the Agreement at its first regular meeting in 1996.