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de las  
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para la  
Agricultura  
y la  
Alimentación

## COMMITTEE ON COMMODITY PROBLEMS

### Sixty-sixth Session

Rome, 23–25 April 2007

### REPORT OF THE TWENTY-FIRST SESSION OF THE INTERGOVERNMENTAL GROUP ON MEAT AND DAIRY PRODUCTS Rome, 13-16 November 2006

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## **I. INTRODUCTION**

1. The 21<sup>th</sup> Session of the Intergovernmental Group on Meat and Dairy Products was held in Rome, on 13-16 November 2006. The meeting was attended by 94 delegates from 47 Member Nations, one Observer from United Nations Member States and 2 Representatives of United Nations and Specialized Agencies. In addition, the following international organizations participated in the Session: the Common Fund for Commodities (CFC), the Organization for Economic Cooperation and Development (OECD), the International Dairy Federation (IDF), the International Federation of Agricultural Producers (IFAP), the International Livestock Research Institute (ILRI), the International Meat Secretariat (IMS) and the International Poultry Council (IPC). The list of participants will be circulated as document CCP: ME 06/INF.3.
2. Dr. Alexander Sarris, Director of the Commodities and Trade Division, welcomed participants on behalf of Mr Jacques Diouf, the Director-General.
3. The Session was opened by Mr. Richard Tudor Price, the Chairperson of the 20<sup>th</sup> Session. He turned the floor over to the newly elected Chairperson, Mr. Dario Baumgarten Lavand, (Paraguay). Mr. Richard Tudor Price (Canada) and Mr. Noel de Luna (Philippines) were elected First and Second Vice-Chairpersons, respectively.
4. It was agreed that the Secretariat draft the report after the meeting and distribute it to the delegates for their review before being finalized in collaboration with the Chairperson.
5. Two symposia were held in conjunction with the meeting: (i) Markets and Trade Dimensions of Avian Influenza Disease Prevention and Control, and (ii) Dairy Value Chains and Comparative Marketing Systems. Over one hundred experts, including many from developing countries, from the private sector and industry associations participated in the meetings. It was also noted that an afternoon session, coordinated by the CFC, would be held after the IGG, on the afternoon of November 16<sup>th</sup>, to discuss livestock development priorities.

## **II. MAJOR POLICY AND ECONOMIC ISSUES RELATING TO MARKETS FOR LIVESTOCK, MEAT AND DAIRY PRODUCTS**

### **A. MEAT AND DAIRY MARKETS: OUTLOOK AND COMMODITY ISSUES**

6. The Secretariat provided updated information on market prospects for meat and dairy products, on the basis of the input to be published in the latest issue of Food Outlook (December 2006), the OECD-FAO Agriculture Outlook: 2006-2015 and CCP: ME 06/CRS 1.
7. Delegates were informed that the increasing incidence of animal disease has further destabilized global meat markets, resulting in increased price volatility and a slowing of the growth in both consumption and trade. Although price shocks caused by the outbreaks have been increasingly witnessed in markets not directly affected by disease outbreaks, quick recovery in consumer demand and responses by unaffected countries were demonstrating the resilience of global meat markets.
8. As far as the dairy markets were concerned, they were informed that the price volatility observed over the past two years has tapered off, with market developments being increasingly dominated by demand in developing countries. On the policy front, export subsidies have not been used by major exporters for skimmed milk powder and policy reform in the EU has led to reduced intervention stocks for the same product.

9. The Group took note of FAO's on-going collaboration with OECD in the generation of medium term projections for agricultural commodity markets. These projection can effectively be used for undertaking scenario analyses that could provide valuable lessons for policy makers.

## **B. IMPACT OF FURTHER ANIMAL DISEASE OUTBREAKS ON LIVESTOCK MARKETS**

10. The group reviewed the results of this FAO study which undertook various scenario analyses, using the FAO/OECD modeling framework, to assess the potential market and trade impact of further animal disease outbreaks on global and national markets. In addition, this presentation provided an update of the animal disease situation since the last Session as well as summarizing the Secretariat's work programme on this topic.

11. The Group was informed that quantitative analysis of the impact of these disease outbreaks: 1) facilitates a systematic review of the key market and policy determinants influencing the magnitude and impact of the shocks; 2) reveals cross sectoral impacts; and, 3) identifies international action which can minimize market shocks due to animal disease outbreaks.

12. The Group strongly supported further work on this topic, in particular the extension of the analysis to include the experience of other countries. Several delegates reported on the impact of disease outbreaks in their countries and provided details on the policy and market issues of concern to their industries.

13. The Group emphasized the need for active involvement by Governments to address consumer fears related to animal disease, especially in recognition that animal disease outbreaks affect the broader agricultural sector through the chain, affecting substitute protein products and input markets. It was acknowledged that regionalization is an effective instrument for enhancing market stability. Furthermore, the Group recommended that countries abide by international guidelines on the coverage, timing and duration of import bans to protect animal and human health.

## **C. IMPORT SURGES: COUNTRY CASE STUDY RESULTS AND POLICY OPTIONS**

14. The Group endorsed document CCP: ME 06/3 and took note of the complexity of causal factors responsible for surges. It acknowledged that livestock products, and in particular poultry meat and selected dairy products, were among the food commodities that experienced the greatest number of surges, and that the incidence of surges had generally increased since the mid-1990s.

15. Delegates concurred that, in general, import surges could not be attributed to a single factor only, for example trade liberalization, but rather to a wide range of causes, both external and domestic. International market shocks, particularly currency devaluations in major importing countries and the outbreak of animal disease, had been significant factors depressing prices in the poultry market and contributing to import surges in many developing countries. The Group also noted that internal factors, such as shortfalls in domestic production owing to adverse weather, outbreak of pests and disease and civil strife, were often significant in determining the onset and continuation of import surges. Reductions in applied tariffs unilaterally or under bilateral or multilateral agreements (rather than gradual reductions in bound tariffs under multilateral commitments) had also facilitated import surges.

16. The fact that not all import surges give rise to injury was recognised by delegates. However, it was pointed out that in some instances import surges not only had negative impacts on short term trade balances but could also severely constrain developing country programmes to expand domestic production, for example for dairy products, and in the broader context to eradicate poverty and hunger.

17. The Group endorsed the recommendations for follow-up action contained in paragraph 29 of document CCP: ME 06/3. In particular, it considered that there was a need to assist developing countries to correctly identify import surges and to accurately analyze their causes in order to implement appropriate policy responses. It, therefore, requested the Secretariat to provide support for capacity development, within the resources made available for such work. The Group further encouraged the Secretariat to seek to establish, within available resources, a Network for Early Warning Information in the Poultry Meat and Dairy Markets to inform member countries of potential shocks that could lead to sharp and abrupt price reductions that would stimulate import surges.

18. The Group also requested the Secretariat to continue to provide technical inputs as needed to discussions in international fora, particularly WTO and regional trade organizations, regarding alternative proposals to deal with disruptive import surges.

#### **D. THE WTO NEGOTIATIONS: DEVELOPMENTS AND IMPLICATIONS FOR LIVESTOCK, MEAT AND DAIRY MARKETS**

19. The Group reviewed through a mixture of presentations and panel discussions the current status of the WTO negotiations and the role of trade policies in shaping the longer term developments in international livestock and dairy markets. The Group welcomed the panel format which sought to involve delegates themselves in presentations to the Session. Delegates were informed of the key WTO issues on which there is still considerable divergence among negotiating parties and recognized the importance of understanding the potential impact of any agreement on their livestock, meat and dairy sectors.

20. The Group acknowledged the benefits of a more liberal and transparent trading environment. However, importing countries, in a discussion on appropriate trade policies on the longer term development of livestock industries, expressed a concern that new trade rules be formulated to allow the use of appropriate trade policies that could, for example, support the development of infant industries and mitigate the potential impacts of import surges. Exporters expressed concern that developed countries tended to have very complex trade and market policies and that an agreement on sensitive product provisions holds the potential to prevent any further opening of key markets for livestock exports.

21. Delegates commented on the growing importance of regional agreements as a catalyst for trade, particularly for dairy product trade by and from developing countries. They also noted that analysis is needed to assess that these trading arrangements are conducive to the longer term development of livestock sectors. However, the Group emphasized the critical importance of a successful WTO agreement, particularly since many of the regional agreements only focus on market access and not the broader dimensions of support to agriculture. Delegates also noted the increasing use of non tariff barriers to trade in livestock, meat and dairy products as a constraint to trade.

22. The important role of FAO as knowledge organization in raising awareness about the WTO agreements and their implications for livestock markets was emphasized. In particular, delegates suggested that priority analysis/capacity building should focus on trade policy on a national and regional level, with an emphasis on assisting member countries to engage in international livestock, meat and dairy product trade. However, in recognition that liberalization does not increase trade for all countries, the Group suggested that FAO conduct analysis on the speed at which liberalization could be undertaken to minimize market disruptions. In addition, delegates agreed that FAO should continue work on development aspects of the Agreement, such as the Special Safeguard Mechanisms (SSM) and Special and Sensitive Products (SSP). Capacity building was recognized as an important FAO contribution, with a particular emphasis on enhancing developing countries' capacity for trade surveillance.

### III. INTERNATIONAL POLICY ACTIONS

#### A. GUIDELINES FOR INTERNATIONAL COOPERATION IN THE LIVESTOCK AND MEAT SECTOR

23. The Group assessed policy changes over the period 2004-2006 with a view to monitoring the progress made in achieving the objectives of the Guidelines (CCP: ME 06/4). While dairy products are not covered by the guidelines, an assessment of recent dairy policy trends was included in the document for the Group's consideration. The Group was reminded that a more comprehensive assessment of policy development for all basic food commodities is included in the Food Policy Review-2004-2006.

24. **Domestic meat** markets continue to be relatively unprotected with only limited support for meat production, consumption, and marketing. Adherence to the IGG's Guidelines for National and International Action on Meat was evidenced by enhanced market access as a result of policy developments in response to rulings by multilateral and regional trade fora. The Group noted the reduction of use of export subsidies in promoting trade and acknowledged the role of regionally established dispute settlement mechanisms as an important way for resolving trade disputes. At the same time, concern was expressed about the increased involvement of local courts in trade disputes.

25. For **dairy**, the Group was informed that, in contrast to the meat sector, the role of market intervention in markets over the review period remained high, particularly in a number of developed countries. However, rising international dairy prices from 2002 to late 2005 reduced measures of domestic price support, as well as the size and use of export subsidies. While lower prices in 2006 reversed this trend, delegates noted that on-going changes to the nature of price support have continued over the time period, with direct payments compensating for reduced price support.

26. The Group stressed their support for the Secretariat continuing to report policy developments and recommended that the guidelines be extended to cover the dairy sector.

27. Meanwhile, the Group strongly endorsed the recommendations contained in the document, in particular that countries should:

- Support FAO activities that evaluate the impact of regional trade agreements on trade and development of livestock industries, specifically in recognition that these agreements, while potentially serving as a catalyst for trade creation, can have differential impacts on other third country suppliers.
- Encourage countries to abide by international guidelines (both OIE and Codex) on the coverage, timing and duration of import bans imposed to protect animal and human health.
- Recommend to countries that border protection and changes in tariffs not be arbitrarily changed in the context of market shocks. This adds to price volatility in international markets and increased trade uncertainty.

#### B. REVIEW OF SYMPOSIA RECOMMENDATIONS : PROPOSED FAO AND IGG ACTION PLAN

28. The Group reviewed symposia recommendations which were summarized in the document CCP: ME 06/CRS.3. The Group appreciated and strongly supported the concept of including symposia on selected issues in future IGG meetings and requested the Secretariat to take this into consideration when planning the next session.

### *Markets and Trade Dimensions of Avian Influenza Disease Prevention and Control*

29. When considering the market and trade dimensions of Avian Influenza, delegates stressed the importance of strong linkages and collaboration with private sector, in both North-South and South-South activities. They emphasized that FAO's initiative to generate lessons learned and to identify and manage the market impact of interventions related to the prevention and control of AI could be considerably enhanced through such collaboration.

30. The Group also agreed that attention was needed to take account of economic, epidemiological and human health factors when considering AI risk reduction. It stressed the need for regional capacity building particularly in the context of harmonizing transboundary policies and practises.

31. The Group supported the on-going cross-divisional work on the socio-economic impact of avian influenza and endorsed the following recommendations:

1. Enhance North-South linkages between private sectors, building on and sharing the lessons learned on how to respond to AI outbreaks effectively, in particular the identification of economic incentives that can encourage enhanced risk mitigation measures by the private sector, thus reducing the potential spread of disease.
2. Continue work on analysing compensation mechanisms, ensuring that they translate into capacity building and policy change, as well as investigating the possibility of assisting developing countries (specifically working with the private sector) to use risk assurance schemes as a means to provide compensation.
3. Recognise, within the context of AI, the need for a balance between veterinary interventions and market realities, recognising the priority importance of food safety and human health. Analysis should be undertaken on appropriate approaches to disease control, balancing epidemiological risk reduction and distribution of economic effects.
4. In the context of the transboundary nature of AI and other animal diseases, regional capacity building should be initiated to understand how to reduce collective costs of control arising from market impacts. Activities should focus on harmonising policy interventions, looking at the risk of transboundary trade in poultry and products, and strengthening links between private sector.
5. Recognize the importance of developing strategies that minimize adverse consumer reaction through the provision of clear and responsible information.

### *Dairy Marketing Systems and Value Chains*

32. There was general consensus by delegates that marketing systems were extremely important to the growth and development of the dairy sector and that there were many pressures facing the various marketing systems. Delegates noted that while some studies concluded higher government intervention increased the producer share of the consumer dollar, they also suggested that higher regulated prices did not necessarily result in improving the well being of producers relative to labour in the local economy. A study of the dairy sector of selected countries in the Americas revealed that higher state or coordinated interventions were negatively correlated with growth as well as other factors such as competitiveness and industry competition.

33. The symposium noted the continuing importance of the traditional and informal sectors of the dairy economy, for both poor producers and poor consumers. While still very important to the livelihoods of millions of rural and urban poor, there were growing pressures on the development of this sector resulting from urbanization, consumer demands for higher quality and safety in milk

and milk products. Delegates agreed that assistance must continue to help producers adapt to ongoing market pressures, and in particular that further work should be undertaken to identify appropriate mechanisms for involving smallholders in dairy development.

34. Delegates acknowledged that large, often multinational, dairy enterprises were gaining in importance both in domestic markets and international trade. They suggested that greater attention was required in strengthening collaboration between this group of industry participants and primary producers, especially small producers. Delegates also concluded that the global dairy industry would be affected by further developments in multinational trade negotiations, increasing the role of the private sector in development of the sector, while reducing and narrowing the role of public interventions.

### **C. THE DEVELOPMENT STRATEGY FOR MEAT AND DAIRY PRODUCTS: A DISCUSSION AND PROPOSED REVISIONS**

35. The Group considered the agenda item on the basis of document CCP: ME 06/5 and an introductory presentation by the Secretariat. When introducing the agenda item, the Secretariat reminded the delegates that the current strategy did not include activities on dairy and noted that a review of past interventions in the livestock sector reveals that many of the development initiatives have led to less than sustainable results. Consequently it was recommended that creating a strategy that would provide a road map for development interventions and a decision grid that would allow the Secretariat to review the merits of CFC project proposals based on identified criteria.

36. The Group was in agreement on the need to broaden the existing strategy to include dairy activities, as well as to revise it, making it more adaptable to the changing structure of the livestock sector. In particular, mention was made of the need to organise producers in some of the developing countries who operate on a very small scale, are of a high illiteracy rate and usually lack access to affordable and appropriate technologies to produce quality products. Delegates, recognizing the need to focus on product quality improvement and access to markets, emphasized the relevance of interventions that target small scale milk and meat processing as an appropriate development entry point along the value chain.

37. In recognition of the short shelf-life of dairy products and the number of smallholder dairy producers, the Group recognised the need to concentrate efforts on developing this sub-sector to enhance the production of good quality products. In view of the limited resources available to the Secretariat, the Group supported the need for extra-budgetary resources. The EC, in particular, expressed support of further developing the strategy, in particular for the dairy sector.

### **D. DEVELOPMENTS REGARDING THE COMMON FUND FOR COMMODITIES (CFC)**

38. The Group reviewed the progress of current projects and considered new proposals on the basis of document CCP:ME 06/6, supplemented by presentations from the Secretariat and from Ms Joy Contreras, Chief of the Animal Product Development Center in the Philippines and the National Project Manager of the CFC-fund Asia Pacific Meat Project. It particularly appreciated the latter presentation, and a number of delegates felt that the project *Meat Commodity Diversification and Upgrading of Meat Processing Technologies in Asia-Pacific* might usefully be replicated in African countries. Particular note was made of the value of South-South cooperation in project work. The Group also approved the progress made on the project *Enhancing Beef Productivity, Quality, Safety and Trade in Central America*. The Group was informed that a fast track project was approved by the CFC that will focus on the development of a regional blueprint for smallholder dairy development in Asia. It was brought to the attention of



the Group that FAO is constrained from implementing CFC projects due to institutional differences in procurement and audit rules

39. The Group endorsed, in principle, three new project ideas: “The promotion of production and marketing of bio-products to improve the nutritional value of agricultural residues from grasses, and their use as a supplement in sustainable systems for the production of milk and beef”, submitted by Cuban Association for Animal Production (ACPA); “Improving the Competitiveness of Smallholder Producers in Dairy Value Chains in Central America”; and “Improving the Marketing and Productivity of Smallholder Cattle in Southern Africa”. In doing so, however, the Group expressed concern that it was asked to make decisions about projects on the basis of limited information and on a subject matter on which it did not always have adequate expertise. It recommended that an informal working group be established, drawn from the membership of the Group, which could utilise expertise available to it, to review new proposals in the future. Proposals should be considered in the light of CFC project criteria and the new Development Strategy that is to be developed for the Groups consideration.

#### **IV. OTHER MATTERS**

##### **A. ADOPTION OF THE REPORT OF THE SUB-GROUP ON HIDES AND SKINS (9<sup>TH</sup> SESSION)**

40. The Group was informed about the results of the Ninth Session of the Sub-Group on Hides and Skins, which was held in Tanzania in early 2006. This report was consequently adopted by the Group. It was indicated the next session of this Sub-Group might be held concurrently with the 22<sup>st</sup> Session of this Group.

##### **B. ACTIVITIES OF OTHER INTERNATIONAL ORGANIZATIONS OF INTEREST TO THE GROUP**

41. Groups expressed appreciation for reports provided by the Common Fund for Commodities (CFC) and the International Livestock Research Institution (ILRI). The Group was informed by IRLI on on-going work related to the livestock sector. In addition, the Group was informed by the International Meat Secretariat about various workshops/symposia to be held in 2007 and reminded that the 17<sup>th</sup> World Meat Congress will take place in Cape Town, South Africa from 7-10 September 2008. This meeting will be held concurrently with the International Congress on Meat Science and Technology (ICoMST). Meanwhile, the representative from the International Federation of Agricultural Producers (IFAP) requested the Secretary to inform the Group of IFAP's interest in collaborating with the IGG in the conceptualisation of an innovative livestock development strategy.

##### **C. DATE AND PLACE OF THE NEXT SESSION OF THE GROUPS**

42. The date and place of the next Session will be determined by the Director-General in consultation with the chairperson taking into account the availability of resources and the schedule of other meetings. The Group would like to acknowledge and commend the offer of the Chairperson of the Session to host the next IGG in Paraguay.

##### **D. ADOPTION OF THE REPORT**

43. The Group agreed that the Secretariat would draft the Report of the Session and would distribute the draft to participants for comments which should be returned to the Secretariat for finalization by mid-January.