SECRETARIAT NOTE ON MAJOR POINTS RAISED IN THE DISCUSSION ON 19-21 MARCH 1968

Introduction

1. In accordance with the decision taken at its meeting on 22 January (Spec(68)11), the Working Party addressed itself to Sections I (Production) and II (International trade and minimum or reference prices) of the list of technical issues (Spec(68)10). The Working Party also had before it statistics on dairy products, assembled by the secretariat (Spec(68)12) and a paper supplied by the International Dairy Committee containing an assessment of the current dairy situation and outlook (Spec(68)13).

Production

2. Members of the Working Party described the trends in production of milk and processed dairy products in their own and certain other countries. Reference was made to a number of factors which had an influence on the levels of production in the dairy sector, including:

(i) cow numbers;
(ii) yield per cow;
(iii) climatic conditions;
(iv) the proportion of milk output retained on farms as opposed to that delivered to dairies for processing;
(v) the form in which deliveries are made to dairies, i.e. as cream or whole milk;
(vi) levels of human consumption of fluid milk and cream;
(vii) levels of consumption of skimmed milk powder for animal feed;
(viii) economic conditions of production, including the degree of rationalization of production, movement of labour force out of dairying or out of agriculture as a whole, etc.
(ix) governmental policies (other than those in relation to (viii)), in particular as regards prices paid to producers.
3. Several members of the Working Party stressed that governments were able to influence levels of production through policy measures, and that prices paid to producers were a determining factor in the level of production in the dairy sector. Some members expressed the view that the relationship between prices and production levels was complex, and difficult to establish exactly.

International trade and minimum or reference prices

4. A member of the Working Party, referring to recent changes in trade patterns, described the importance to his country of the major import market, as well as of the new markets which were being built up elsewhere but which had recently been subject to sharp price competition. The Working Party examined the available statistical data; there was consensus that the price and excess stock situation as well as the volume of trade flows constituted important aspects of the problem before it.

5. With respect to the definition of products in a minimum or reference price scheme, a member of the Working Party suggested that such a scheme should cover butter, near butters, and skim milk powder. Near butters must be included so as to avoid circumvention of the scheme through exports of near butters that might subsequently be reconverted into butter; difficulties of definition might be overcome by making the scheme apply to all butterfat. Countries might thus undertake not to sell products containing more than an agreed percentage of butterfat below a certain price. Another member of the Working Party commented that the products covered must be sufficiently homogeneous to make the scheme workable. The consensus of the Working Party was that an acceptable arrangement might cover butter and contain provisions extending to near butters, or, more generally, butterfat; it should also cover skim milk powder. A member of the Working Party observed that according to his understanding, the possibility of extending the scheme to cheeses might also be discussed at a later stage.

6. A member of the Working Party suggested that while price differentials might be needed in respect of forms of packaging, there was no need for establishing differentials in respect of quality or geographical origin. At most, a differentiation might be made between sweet-cream and sour-cream butter. A single minimum price applying to all butters was however to be preferred, for the sake of simplicity and because differentials reflecting consumer preferences in one market might not be applicable in others. In cases where the minimum price gave rise to practical difficulties the body administering the scheme would consider what action was to be taken. A member of the Working Party observed that if a single price were to serve as a minimum for all butters, it would have to be set in terms of the lowest quality traded. Other members drew attention to the possible need for making special provisions for butter sold from cold store.
7. Because of the inter-relationship of the subject matter, the Working
Party discussed the problems concerning the use of an f.o.b. or c.i.f.
basis, the observance of minimum prices and the position of non-member
exporters concurrently. A member of the Working Party outlined three
possibilities for a price basis: (i) a single f.o.b. price applying to
all exports; (ii) a system of f.o.b. prices that would vary among
exporters and according to destination, and would be set so as to lead to
a uniform c.i.f. price level in given markets; (iii) a system based
solely on c.i.f. prices. In his view, a single f.o.b. price had a number
of advantages: it fitted in with the broad objectives of a minimum price
scheme aimed at avoiding price cutting, and, being relatively simple to
control, would be the easiest system to administer. The likely effect
that markets would tend to be taken up by exporters with the advantage of
proximity would possibly be in line with traditional trade patterns;
this point could require further reflection. The systems involving c.i.f.
prices, even if these were set zonally rather than for individual markets,
would be more complex and would also have to take account of differing
transport costs. In the case of his country, which had a single exporting
agency, there would be no difficulties in observing a minimum f.o.b. price.
Supervision of the scheme would be facilitated by regular periodic reports
to the administering body by exporters on quantities, prices and
destinations of exports; importers would similarly be required to report.
All members would have to participate in reporting breaches of obligations,
and provision would have to be made for a complaint procedure and for
emergency measures. The problem of non-participants would be lessened if
membership were as wide as possible; non-members of GATT could perhaps be
associated.

8. Several other members of the Working Party expressed their preference
for a system based on f.o.b. prices.

9. Another member considered that as the problems under discussion
existed at the destination, a system based on f.o.b. prices that would
differ according to destination so as to lead to a uniform c.i.f. price
would be more appropriate. Another member supported the use of a c.i.f.
basis on the grounds that where export subsidies were being granted, their
level was determined according to the market of destination; furthermore,
a f.o.b. system might leave countries free to subsidize transport costs.

10. Several members of the Working Party stated that irrespective of any
preferences they might have for one system or another, they were willing
to consider any proposal on a minimum price scheme in order to find a
solution to the problem in hand.

11. With reference to the criteria for fixing prices, a member of the
Working Party stated that the price level must be reasonably acceptable to
both buyer and seller if trade were to take place. While, in his view, it
was generally agreed that current world market prices were exceedingly low,
he considered that the prevailing situation of oversupply would make it
dangerous to take action that would depress existing consumption levels or
discourage the creation of new markets. Other members, supporting this
view, underlined the importance of the trade aspects in setting price
levels, and pointed to the danger of substitution if levels were set too
high.

12. A member of the Working Party suggested that the minimum price could
be set at the level corresponding to that of the most efficient producing
country. Another member considered that taking as a basis the price
levels obtaining in any one country was too arbitrary.

13. Several members of the Working Party felt that certain aspects of the
problem of fixation of price levels were of a longer-term nature and could
more appropriately be dealt with in the Agriculture Committee. They
recalled that in any case the Working Party and the Committee would be
taking each other's work into account.

Next meeting

14. It was agreed that the Chairman would consult with members in order to
decide on an appropriate date for reconvening the Working Party, bearing in
mind the urgency of the problem. The intervening period would enable
governments to continue the study of the problem in the light of the
discussions to date, and to give consideration to possible action to be
taken with respect to its solution. The next meeting of the Working Party
would be devoted to the completion of the discussion of the technical issues,
and, subsequently, to a concerted attempt to arrive at mutually acceptable
solutions.