1. At its meeting on 14 and 15 May 1968, the Working Party had agreed that the next task before it was a concerted attempt to arrive at mutually acceptable solutions to the urgent problems facing international trade in dairy products (Spec(68)52, paragraph 24).

2. Accordingly, the Working Party met on 4 and 5 July 1968. It had before it the following documents, issued since the last meeting: export prices of skimmed milk powder (Spec(68)47 and Addendum 1); statements made by the representatives of the Food and Agriculture Organization and of the World Food Program on 15 May 1968 (Spec(68)48 and 49); Secretariat note on major points raised in the discussion on 14 and 15 May (Spec(68)52); and the text of a communication from the International Dairy Committee (Spec(68)63). It also had before it a report on milk products as food aid, prepared by the FAO and put by that organization at the disposal of the Working Party, for information, in the form of an advance copy as document CCP 68/8/1.

3. Opening the discussion, a member of the Working Party stated that his authorities were very conscious of the need to leave the exploratory and technical stage and attempt to advance towards solutions that would take account of the particular nature of the present situation in the world dairy market. His authorities were still fully engaged in the formulation of a dairy policy, so that his delegation was participating in the activities of the Working Party without a negotiating mandate in the strict sense of the word. It had nevertheless been entrusted with the mission to explore the various possibilities that might emerge from the discussions and to present certain guidelines as to what might be done at a subsequent stage. Although his authorities had always maintained that the solution of the world's main agricultural problems should be sought through a global approach, they nevertheless considered that it would probably be possible to tackle the problem before the Working Party by, in the first instance, a search for a price discipline in the world market. In this respect his delegation's ideas approached certain ideas put forward earlier by other members of the Working Party. It was his delegation's view that if the price disciplines were to be a meaningful and effective solution to at least the immediate problems, it would be necessary and even indispensable that any agreement or gentlemen's agreement that might be concluded in this respect covered the whole market and not only certain parts of it. The efforts, at least at the present stage, should be made to bear on the two main products entering world trade, namely butter and skimmed milk powder. As regards the proposals put forward by certain members of the Working Party to help solve the problem by means of food aid he indicated that
this was a measure that was envisaged and had recently been decided upon—though only in principle—by his authorities as one of the measures to be employed in the future in order to achieve a better balance in the domestic dairy market. In conclusion, he asked whether all exporting countries represented at the meeting could already at that stage indicate their readiness to observe a price discipline such as he had outlined; in his view observance by all exporters was indispensable. He also asked whether importing countries would be in a position to enforce such a discipline by means of appropriate mechanisms; this would be particularly important if some exporters were unable to enforce it.

4. Another member of the Working Party expressed his appreciation of the statement just made which helped the Working Party to see the general lines along which it might proceed; he hoped, however, that the outline could soon be complemented with the necessary details. Two ideas were now before the Working Party. One was that proposed by his own delegation which consisted in a formal and binding minimum price arrangement and a food aid scheme which his delegation believed to be a most desirable and essential part of the solution to the problems dealt with. The other, just put forward, consisted in a "price discipline". This would fall short of the type of commitment proposed by his delegation, as it would presumably involve a less formal arrangement that would thus be less legally binding. If there was a difference between the degrees of obligation, the question to be explored was whether there was a difference in effect. He doubted that the second approach would be as effective as the first: if minimum prices were to be targets rather than the subject of binding obligations, a great deal would depend on the methods used by individual participants to ensure that the targets were met. Consideration should also be given to the terms in which such an agreement would be expressed; they would presumably be less specific in an arrangement that was looser than that proposed by his delegation. An arrangement of a looser type involved an act of faith, which many countries might be willing to make provided they had a full and detailed knowledge of the techniques exporters would be prepared to employ in putting it into effect. The criterion by which any scheme must be judged was that of effectiveness.

5. Continuing, he noted that the outline given by the previous speaker had been stated to concern all markets, whereas his delegation's proposals were limited to certain markets. He agreed that efforts should, at least in the first instance, bear on butterfat and skimmed milk powder. A scheme for skimmed milk powder would be widely applicable; a scheme for butterfat should be subject to certain exceptions. He recalled that from the beginning of the consultations, his delegation had spoken of short-term urgent problems in certain markets. The distinction which must continue to be borne in mind was between a short-term arrangement to solve urgent problems and the search of an agreement or arrangement on dairy products in respect of long-term problems. The latter task would result from the work of the Agriculture Committee some time in the future. The task of the Working Party was to find interim solutions to the urgent problems pending that time. He agreed that it was desirable to know whether the exporters
present were ready to participate in an effective scheme on dairy products, but pointed out that consideration must also be given to the position of non-participating exporters.

6. Continuing further, he stated that in his delegation's proposal, food aid formed a link between the price aspect and the disposal aspect. Large surpluses were not conducive to the effective operation of a price scheme, and, if they could be reduced, the prospects of success of a price scheme would be improved. Underlining his country's humanitarian interests in food aid, he welcomed the FAO report which had been made available to the Working Party. He noted with pleasure that the authorities represented by the previous speaker had taken a decision in principle that food aid was to be considered as a solution to the problems in the dairy market and hoped they would examine various ways of implementing it, including multilateral action.

7. Another member of the Working Party, agreeing with the views just expressed, emphasized the need to know more fully the meaning of "price discipline" and how countries would exercise it. His delegation favoured a minimum price arrangement; possibly the difference between this and "price discipline" was not very great. An arrangement should contain firm commitments by exporters not to sell below a given price. The form in which the commitments would be implemented might vary from country to country. In his country a Dairy Board had sufficient power to enforce such commitments. Another member added that sales from his country were also in the hands of a single marketing organization, so that observance of fixed price levels presented no difficulties.

8. A member of the Working Party expressed his agreement that effectiveness was the criterion for the scheme of price discipline he had proposed, or for a minimum price scheme. He pointed out that while the latter could be implemented with relative ease by countries with a centralized exporting body, the ability of other countries to observe commitments or minimum prices over a given period needed to be investigated. Another member agreed that it might in certain cases be difficult to maintain export prices at a given level, or to decide whether a certain sale had taken place at or below a minimum price, but pointed out that had been the reason why his delegation had proposed the establishment of a supervisory body. The need for such a body would be even greater in a loose-type arrangement.

9. A member of the Working Party put the question as to the general attitude of the Working Party to the concepts of price discipline or of a minimum price, and asked whether its members were prepared to proceed along the lines indicated. Most members replying affirmed their positive attitude; some of these, in addition, expressed the need for more detailed information. Other members stated that more such information was required.
10. A discussion took place on the levels of prices in a scheme, and criteria for setting them. A member observed that account must be taken of competition between butter and other fats, and therefore of demand factors. Another factor to be taken into account was the existence of a single major market for butter alongside other markets. Another member stated that the aim should be to set prices at a level that would put a floor under the market to prevent ruinous prices but that would at the same time allow consumption to develop. Regard must also be had to the position of exporting countries and price levels ruling in an agreed past period. The period selected should not include the time since the Working Party had been set up, during which prices had moved down to disastrously low levels, nor should it include times when prices had been unusually high.

11. Another member of the Working Party added that the price level selected must be satisfactory to efficient producers and supported the view that it should allow for expansion of consumption. Suggesting that the question of price levels should be approached on a pragmatic basis rather than through a search for criteria, he agreed that account should be taken of past prices, such as those prevailing up to the time the Working Party had been set up.

12. Various other members expressed their support of the view that account should be taken of a reasonable remuneration to efficient producers and of demand. One of these members added that for an importing country the following criteria were also of importance: consumer spending resulting from a given price level; elasticity of demand; aggregate cost of imports; balance-of-payments considerations; the effect of minimum prices on prices received by domestic producers, i.e. profitability of domestic production. Another member suggested that a comparison of the butter-margarine price relationship at the retail stage would be useful; members agreed to provide the Working Party with the relevant price series.

13. A member of the Working Party, in amplification of an earlier affirmation of a positive general attitude to the proposals made, stated that his delegation favoured any system that would bring order into the dairy market. In his view such an order already existed in the major import market, and his country's participation in an arrangement depended on how that market would be affected by it. His country would not be able to support any arrangement which would imperil its position in that market. As regards the form of the arrangement, a more formal agreement was to be preferred over a gentlemen's agreement, and while it should initially cover butter and skimmed milk powder, other dairy products should subsequently be included in order to avoid the creation of problems in these products.

14. At the request of the Working Party, the representative of the FAO introduced and described his organization's report on milk products as food aid. The Working Party expressed its appreciation to the FAO for its efforts in rapidly
producing a very valuable report and placing it at the disposal of the Working Party; and to its representative for his clear and able presentation.

15. In order to facilitate a full substantive discussion, members of the Working Party requested those other members who had made proposals to make them available in writing and in as detailed and specific terms as possible, well before the next meeting.

16. The Working Party agreed that it would reconvene as early as possible, at a date to be fixed by the Chairman in consultation with members, in order to undertake the negotiation of a multilateral arrangement on the basis of the discussions that have already taken place in the Working Party and taking into account the preparatory work which will be carried out for this purpose in the meantime.