1. The Group was established to deal with questions relating to the price provisions of an arrangement on dairy products. This in practice meant that it examined questions raised by Article II of the New Zealand draft with the exception of the first and second sub-headings of paragraph 2 of that article on fat content and packaging which were related directly to the work of the other Expert Group.

2. The Group agreed that it could not discuss the actual level of minimum prices to be written into an arrangement until agreement had been reached on other points, such as the basis for the establishment of the minimum price.

3. This was the main point examined by the Group. One member who had not previously pronounced on the question said that his Government now favoured a c.i.f. system. There was general agreement that since there was a divergence of views on the question the Group should examine the possibility of devising a modified system. There was also a widespread feeling in the Group that such a modified system should, while dealing with the practical concerns of delegations, be as simple as possible.

4. The secretariat circulated a paper setting out different bases which might be used for the establishment of minimum prices. It emerged from discussion that the differences between a modified f.o.b. system and a modified c.i.f. system might be very small. After some discussion it was agreed that it would be helpful if detailed proposals could be put to the Group, and that consideration should be given first to butter.

5. A proposal was made that, for the purpose of establishing the basis for the minimum price of butter, the world should be divided into two zones which might for convenience be called, on the one hand, the "Pacific" and on the other, the "Atlantic and Mediterranean" zones. In each of the zones there should be one reference point for exports and one reference point for imports. In the Pacific zone the reference
point for exports might be a New Zealand port and the reference point for imports might be a Japanese port. In the other zone the reference point for exports might be a Community port and the reference point for imports either a port in North Africa, or, say, the United Kingdom. Without going into the full details of the proposal, each exporting country would agree to respect two f.o.b. prices, one for exports to the zone in which it was situated and the other to exports to the other zone.

6. For exports within a zone it was suggested that exporters in that zone might either all have the same f.o.b. price or have differing f.o.b. prices which would reflect the difference between freight costs between their country and the import basing point and the export basing point.

7. For exports from one zone to the other each exporting country's f.o.b. price would be adjusted by adding a figure representing the cost of freight from the export basing point in the other zone to the import basing point in the other zone and by subtracting a figure representing the cost of freight from the export basing point in its own zone to the import basing point in the other zone.

8. It was stressed that this proposal was not regarded as being final in all details. It was agreed that it would be necessary, inter alia, to define the zones and to agree on figures for the adjustments to be made to reflect freight costs between the four basing points, and that work on this should proceed as rapidly as possible.

9. The Group agreed that the proposal was an interesting one which deserved further study.

10. The Group agreed that it could not examine proposals for the basis for the minimum price on skimmed milk powder until it was decided whether this was to be included in an arrangement and whether there would be one or two pilot products for skimmed milk powder.

11. The Group then identified the other points raised by Article II of the New Zealand proposal.
12. The Group discussed the provisions to be made in an arrangement in cases where the terms of sale included credit, it being noted that the minimum price would relate to a transaction in which prompt payment was made against documents. After discussion the suggestion was made that if the terms of the sale included credit the minimum price should be increased by the cost of the credit at prevailing commercial rates. It was also suggested that a minimum rate to be set at say, \( \frac{1}{2} \) of 1 per cent per month. One representative reserved the right to propose that the minimum price should be decreased when sales were made against an irrevocable letter of credit.

13. The Group also discussed questions relating to paragraph 8 of Article II headed non-commercial aid transactions. There was wide support for the suggestion that prior notification should be made to the GATT secretariat of any transactions covered by the paragraph which involved quantities above a certain minimal amount to be fixed and that opportunity should be given for prior consultation on request. The Group agreed to examine this question at the next meeting when it would have a precise form of words before it.

14. There was a difference of opinion in the Group as to whether concessional sales made in connexion with a school milk programme operated by one country would or would not fall under paragraph 8 of Article II.

15. The Group agreed that the price obligations contained in an arrangement might be reviewed annually. It also agreed that if the concept of zones was introduced in the basis for the establishment of minimum prices, the definition of the zones might have to be reviewed from time to time.

16. It should be added that during the discussions it was noted in connexion with paragraph 4 of Article II that contracts entered into before an arrangement entered into force might create a question; this was related to the date on which an arrangement would enter into force. It was also noted that, even if price obligations were expressed in f.o.b. terms, a certain collaboration by importing countries would be necessary.