International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

SIXTH SESSION

Report

Chairman  Mr. C.G. O'Hanlon

1. The International Dairy Products Council held its sixth session on 1 April 1982.

2. At the opening of the session, a special welcome was addressed to Egypt which was being represented for the first time as a participant at a Council session. The representative of Egypt expressed the hope that his country's participation would contribute effectively to satisfactory operation of the Arrangement.

3. The Council adopted the following agenda:

   A. Election of the Chairman and Vice-Chairman
   B. Admission of observers under Rules 11 and 14 of the Rules of Procedure
   C. Review of the functioning of the Arrangement:
      - Reports on the sessions of the committees with responsibility for administering the protocols
      - Drawing up of graphs
      - Replies to questionnaires 4 and 5
   D. Evaluation of the situation in and outlook for the world market in dairy products
   E. Other business.

4. In pursuance of Rule 2 of the Rules of Procedure, the Council elected Mr. C.G. O'Hanlon (Australia) as Chairman and Mr. L. Paunescu (Romania) as Vice-Chairman. Appreciation was expressed to H.E. Mr. T.C. O'Brien (New Zealand) under whose chairmanship the Council had been able to carry out
its work in optimum conditions over the past two years and to Mr. A. Cruit (United States) who had held the office of Vice-Chairman over that period.

B. Admission of observers under Rules 11 and 14 of the Rules of Procedure

5. In pursuance of Rule 11 of the Rules of Procedure and as at earlier sessions, the Council invited representatives of Mexico and Panama to follow the discussions at the current session as observers.

6. In accordance with Rule 14 of the Rules of Procedure and as at earlier sessions, the Council was informed of the requests made by OECD, UNCTAD, FAO, and the Economic Commission for Europe and invited representatives of those organizations to follow the discussions at the current session as observers.

C. Review of the functioning of the Arrangement

Report on the eighth and ninth sessions of the committees with responsibility for administering the protocols

7. The Council had before it reports by the Committee of the Protocol Regarding Certain Milk Powders, the Committee of the Protocol Regarding Milk Fat and the Committee of the Protocol Regarding Certain Cheeses on their eighth sessions, circulated as documents DPC/P/10, DPC/F/10 and DPC/C/10 respectively. An oral report was made by the Chairman of the committees of the protocols on their ninth sessions, held consecutively on 30 and 31 March 1982.

8. In that report, it was noted that each of the committees had entrusted the office of chairman to the secretariat (Mme F. Hubert). After examining replies to the questionnaires and the summary tables, and in response to the request made by the Council at its last session, the committees had examined information on food aid reported in the secretariat note (DPC/W/21). Additional information furnished during the discussion had been put before the Council. The committees had next reviewed the market situation for the products covered by each of the protocols. The Committee of the Protocol Regarding Milk Fat had noted that as reported in the replies to the questionnaire, butter output had increased slightly in 1981 after having remained relatively stable in 1980. It would appear, however, that total world output had declined slightly in 1981, possibly because of smaller production in the USSR. According to indications given during the meeting, some increase in aggregate butter production by the countries represented seemed likely in 1980. As regards butter exports by major participants, varying trends had been noted in 1981. The United States had exported butter because of increasing stocks, whereas in the preceding year its exports had been negligible. The trade trend for 1982 was difficult to
forecast. Although butter imports by the USSR, certain East European countries, the OPEC countries and certain Mediterranean countries, had continued to develop in 1981 and demand from the USSR had remained firm in early 1982, there nevertheless seemed to have been some contraction in aggregate demand. World consumption of butter had probably slipped back in 1981 despite some increase in certain countries, and the Committee had decided to give particular attention at its next session to the question of consumption trends. Notwithstanding the considerable increase in the United States, aggregate butter stocks held by the EEC, North America and Oceania at the end of 1981 had been slightly lower than at the beginning of the year. The Committee had underlined the concern felt regarding the United States stocks situation and had taken note of a statement by that country's representative regarding certain stock disposal programmes. Export prices, which had been fluctuating between US$2,300 and US$2,425 per ton f.o.b. at the end of 1981, were tending to weaken. That trend could be due either to appreciation of the United States dollar or to contraction of demand. With respect to anhydrous milk fat, production and exports by the EEC and New Zealand had dropped back appreciably in 1981. After having firm in the first three quarters of 1981, prices had weakened in the latter part of the year and the downward trend seemed to have continued in early 1982.

9. The Committee of the Protocol regarding Certain Milk Powders had noted that production of skimmed milk powder had increased slightly in 1981 and the trend might continue in 1982. International trade in skimmed milk powder had been less active in 1981 than in the preceding year. Although import demand from oil-exporting developing countries seemed to have remained keen, imports by other developing countries in 1981 had been short of the preceding year's level. Japan's purchases had continued to decline. Despite some slowdown at the beginning of the year, international trade seemed likely to continue in 1982 at the preceding year's level. Some recovery had been noted recently, but it was difficult to evaluate and pinpoint the trend which would be affected in particular by the stock situation. World consumption of skimmed milk powder seemed to have fallen off somewhat in 1981. Nevertheless, replies to the questionnaire indicated a slight increase and the Committee had agreed to examine the consumption trend at its next session. At the end of 1981, aggregate stocks of skimmed milk powder in the EEC, North America and Oceania had been well above their level at the beginning of the year, the increase being particularly pronounced in the United States. Considerable concern had been expressed over the situation in regard to those stocks. International prices of skimmed milk powder had remained relatively stable in 1981, but seemed to have weakened towards the end of the year and early in 1982. Basic demand had been reported as remaining firm, however, so that those prices might well remain relatively stable in 1982, though the possibility of weakening should not be discounted. With respect to whole milk powder, output had increased in 1981 and could continue to progress in 1982. According to replies to the questionnaire, trade expansion, which had been considerable in 1980, seemed to have slowed down in 1981. Varying assessments had been
made for the trend in demand in 1982. International prices of whole milk powder had increased in 1981, but had been tending to slip back in early 1982. The Committee had continued its examination of the Hungarian request for that country's processes and control measures to be approved and included in the Register, in accordance with Article 3:5 of the Protocol. The Committee had found that additional time was necessary and would be reverting to the matter in June.

10. The Committee of the Protocol Regarding Certain Cheeses had noted that world cheese production had continued to expand in 1981, and further progress was expected in 1982. Overall, international trade in cheese had remained active in 1981, with keen demand from certain developing countries in particular. United States imports had returned to their 1979 level. In 1982, trade seemed likely to remain relatively firm around the preceding year's level, though with a possibility of some weakening. According to replies to the questionnaire, cheese consumption had continued to rise, though in certain countries at a slower rate. The Committee had decided to discuss the question of consumption in greater detail at its next session. With respect to prices, international prices for Cheddar cheese had strengthened in 1981 and at the end of the year were between US$1,700 and US$1,740 per ton f.o.b. They seemed to have continued firm in the first quarter of 1982. Cheese stocks at the end of 1981 had shown varying trends. A further increase had been recorded in United States cheese stocks. Concern had again been expressed regarding that country's stocks of various dairy products, and the need had been underlined for information on action taken or envisaged for stock disposal.

11. The representative of the European Economic Community said that the information furnished in reply to questionnaires and the summary tables reflecting those data had been useful to the committees for evaluating the situation; nevertheless, that information was in respect of past months, and it would be desirable for the committees to have more recent data from participants, in particular regarding current stock levels, anticipated trade, trends in demand, to allow more meaningful examination of forecasts for the current and future marketing years.

12. Some information was furnished in response to questions put during sessions of the committees. The representative of Australia said that the current world prices for skimmed milk powder seemed to be lying in the range of US$1,040-1,060 per ton, and for whole milk powder between US$1,450 and US$1,500 per ton. A sale of skimmed milk powder to Japan was carried out by Australia in December 1981 for 13,090 tons at an f.o.b. value, based on the then current rate of exchange between Australian and United States dollars, ranging between US$990-1,000 per ton; the product sold under that particular sale was aged standard grade skimmed milk powder suitable for
stock feed only. The prices that had remained current between trader to
trader sales since that date for skimmed milk powder had, on the exchange
applicable on the date of the sales, ranged between US$1,045-1,065 per ton.

13. The representative of the United States said that stocks as of 26 March
were the following: butter 350.3 million pounds; skimmed milk powder
967.6 million pounds; cheese 605.9 million pounds. They were uncommitted
CCC stocks. Concerning the disposal of these stocks, numerous suggestions
were under study at the moment but no decision had been made. There were
domestically several types of programmes concerning cheese and butter being
undertaken on a pilot basis and there had been some adjustments in some of
the more traditional programmes. Nothing had been planned as regards
exports of cheese to the USSR. As regards United States/Jamaica barter deal
for skimmed milk powder and butteroil, the United States considered it a
commercial transaction. The amounts and values at which the deal took place
were for skimmed milk powder 7,238 metric tons at a price of $1,100 f.a.s.
vessel per ton, for butteroil 1,905 metric tons at US$2,625 f.a.s. vessel
per ton; the amount of bauxite involved was 4,000 long tons. The delivery
was to be after July.

14. The representative of New Zealand said that the examination of market
trends and outlook in the context of the Arrangement should allow the latter
to function properly. According to information just received, prices
currently ruling in New Zealand and those which, so far as he knew, were
ruling on the international market were the following (in United States
dollars per ton f.o.b.);

<table>
<thead>
<tr>
<th>Product</th>
<th>New Zealand price</th>
<th>Other prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butter (salted, in bulk)</td>
<td>2,200-2,400</td>
<td>2,200-2,400</td>
</tr>
<tr>
<td>Anhydrous milk fat</td>
<td>2,500</td>
<td>2,350-2,600</td>
</tr>
<tr>
<td>Skimmed milk powder</td>
<td>1,060</td>
<td>1,000-1,120</td>
</tr>
<tr>
<td>Whole milk powder</td>
<td>1,475</td>
<td>1,400-1,500</td>
</tr>
<tr>
<td>Cheese (Cheddar)</td>
<td>1,750-1,850</td>
<td>1,750-1,850</td>
</tr>
</tbody>
</table>

New Zealand prices for anhydrous milk fat were currently among the
highest because of adjustments made in January to the Community refunds and
to appreciation of the United States dollar in relation to the ECU.

15. The Council took note of the reports by the committees and the
statements made.
Drawing up of graphs

16. It was recalled that as agreed by the Council at its October session, a meeting of experts had been convened on 17 December 1981 in order further to examine the modalities for drawing up the graphs proposed for inclusion in the status report. The experts had given particular attention to problems regarding comparability of data. In general, the figures communicated in response to the request made by the experts at their first meeting were not directly comparable. It had been noted that use of an exchange rate, which would facilitate comparability, would have the effect of distorting the image of price movements. Consideration had been given to drawing up, in a first stage, graphs by country (or group of countries) and calculating indices on the basis of prices expressed in national currencies; in order to take account of inflation rates, the indices could be adjusted by a deflationary coefficient such as an index of consumer prices or of farm costs. Use of a formula of that kind would of course depend on the statistics available and their component elements, which could differ according to the case. Some participants had expressed doubts regarding the usefulness of the exercise because of difficulties encountered and the possibility that no meaningful result could be achieved. It had also been suggested that the data furnished could be considered in their existing form, but for the purposes of evaluation, it would be desirable to have a precise definition of the products for which prices were reported. Any solution would depend on the information available (in particular with respect to inflation rates or product definition - even in certain cases all data previously requested). The exercise could not be pursued unless that information was available; it was noted that the exercise should cover all participants. The latter had been requested to communicate the necessary data or to supplement information already furnished by any clarifications needed for the examination. The list of information available up to 15 March 1982 had been circulated in document DPC/W/15/Supp.1; since then, the secretariat had received two additional replies. In examining comparability of the information available, the experts had agreed that two series of data were suitable for a graphic presentation - namely, international f.o.b. prices and the minimum prices fixed under the Arrangement for certain products; they had asked the secretariat to draw up those graphs, which had been circulated in document DPC/W/19.

17. The representative of the European Economic Community said that the graphs reproduced in the secretariat note were a useful contribution to work under the Arrangement and should be kept up to date. With respect to prices ruling in the various countries or group of countries, the existing presentation seemed adequate. In order to have a complete picture of the situation, however, it would be desirable for all participants to furnish the necessary data. The representative of the United States supported that view.

18. The representative of New Zealand noted that it would be useful to have a full picture of the situation regarding support prices or other prices applied in all countries participating in the work. New models could be proposed for graphic presentation of those data.
19. The representative of Australia regretted that because of technical difficulties it had not been possible to include in the status report the graphs originally envisaged. Those reproduced in document DPC/W/19 were nevertheless a useful contribution to work under the Arrangement and should be included in the status report. Data regarding support prices or other prices applied in the various countries would constitute useful background information that should be comprehensive.

20. The Council noted that the graphs proposed in document DPC/W/19 were useful for its work; it requested the secretariat to keep them up to date and present them regularly.

Replies to questionnaires 4 and 5

21. The Council took note of the data received in reply to questionnaires 4 and 5 and requested participants to communicate to the secretariat as soon as possible their replies under Rule 23 of the Rules of Procedure. The Chairman recalled that under that Rule any changes in domestic policies and trade measures were to be communicated as early as possible, and in any case in July of each year. In cases where there had been no changes, a note to that effect would be useful.

D. Evaluation of the situation in and outlook for the world market for dairy products

22. Opening the discussion on this agenda item, the Chairman recalled that a number of questions would have to be considered in that context such as dairy policies, food aid and products not covered by the protocols. The Council had before it two documents prepared by the secretariat - namely a status report on the world market for dairy products (document DPC/W/18) and a note on food aid operations in dairy products (document DPC/W/21). Additional information on food aid operations had been made available to the Council. The status report would be supplemented, and if necessary amended, by information resulting from the work of the committees; any corrections would be included in the next note by the secretariat.

Dairy policies

23. The representative of Japan announced the Japanese Government's decision regarding support prices to be applicable from 1 April 1982 to 31 March 1983. The guaranteed price for processing milk was ¥ 89.37 per kg., or an increase of 0.50 yen/kg. The maximum quantity for deficiency payment remained at the same level, i.e. 1,930,000 tons. The stabilization indicative prices were the following: butter yen/kg. 1,253 (i.e. the same level as in previous year); skimmed milk powder: 12,670 yen/25 kg. (an increase of 1.1 per cent); sugared condensed whole milk: 8,750 yen/24.5 kg. (an increase of 1.5 per cent); sugared condensed skimmed milk: 7,760 yen/25.5 kg. (an increase of 2 per cent).
24. The representative of the European Economic Community said that agricultural prices had not yet been fixed for the coming marketing year. The Commission had proposed an average increase of 9 per cent in the dairy sector, to vary between 8 and 10 per cent according to products. Despite the low level of stocks, the Commission was proposing continuation of the special disposal measures in order to promote the efforts being made to stabilize the sector, in particular by encouraging internal consumption. The measures should have the overall effect of holding down stocks. It was not yet possible to make any exact forecast as to the production increase in the EEC, but agricultural prices would certainly not rise to a level constituting an incentive, taking into account increasingly high production costs and inflation rates. The proposals made were reasonable in relation to the overall economic situation and should not cause any structural changes in Community production.

25. The representative of the United States recalled that a new Agriculture and Food Act had entered into force in December 1981 and had not had the desired effect in the dairy area. As a result, that sector was currently considered by the national authorities as being in a crisis situation needing priority attention. At a recent symposium on the subject, in which various members of the industry had participated, many suggestions had been made and they were now being studied. New legislation would probably be proposed in the near future. Under the United States system, proposals could be put forward either by the administration or by Congressmen or senators representing views of the private sector; new legislation could evolve through that procedure.

26. The representative of the European Economic Community underlined the serious concern felt in the EEC over increased United States stocks of dairy products and the measures envisaged for their disposal. He asked the United States representative to inform his authorities of that concern, underlining that any marketing of those products must not be detrimental to international prices.

27. The representative of the United States said that he would convey to his authorities the remarks made by the EEC representative. A number of possibilities for handling the problem of stocks were under consideration, and due account would be taken of the international market situation, for any disruption would be to the disadvantage of all participants.

28. The representative of Australia said that his country's authorities remained concerned over the level of support extended to the dairy industry by several major producers. Nevertheless, certain recent developments had shown a willingness of governments to tackle surpluses which were the root cause of instability in the world dairy trade. One example was the reduction in the ratio between the support price and the parity price provided in the new United States Agriculture and Food Act, and the efforts
that country was making to dispose of surplus stocks on the domestic market; nevertheless, the possibility of United States surplus disposals on the world market was continuing to cause concern. The recent transaction concluded between the United States and Jamaica was an illustration. Although assurances had been given that the prices involved were normal world market prices, the transaction could have implications for a sensitive market in which Jamaica was traditionally considered as a normal trade outlet. It was to be hoped that the United States would continue its efforts to dispose of stocks on the domestic market; if that were not possible, any disposal on the world market should be achieved without prejudice to the legitimate interests of trade partners, and adequate opportunity should be given for prior notification and consultation. Another cause of concern was the Community proposal for a 9 per cent increase in prices for 1982/83. A large price increase could trigger off a production increase that would inevitably be detrimental both for the Community itself and for the future of the world dairy market.

29. The representative of New Zealand said that in recent years the situation on the international dairy market had remained relatively stable, in part because of co-operation in fora such as the Council and the general willingness of governments to consult each other in the interest of maintaining market equilibrium. At present, however, there were not grounds for complacency. New Zealand, as a regular commercial exporter, was particularly concerned over subsidization of exports by competing countries. While the United States was making efforts to deal with the current alarming increase in stocks, the situation was serious and its mere existence was having an important effect on the international market situation. Another matter for concern was the growth of production in excess of consumption in the EEC; although the Commission had recognized the problem it had not taken account of it in its price proposals. The proposed reduction in the co-responsibility levy would probably have an incentive effect on production.

30. The representative of the European Economic Community underlined that the EEC had pursued an extremely prudent price policy over the past four milk years. Increases granted to producers had been short of the increase in production costs and the inflation rate; that was likewise the case for the figures now being proposed which were well below what farmers were calling for and Parliament had recommended. It was a recognized fact that the EEC's policy had allowed stability to be achieved on both the Community and the international market.

31. The representative of Hungary said that his delegation had already raised the question of Hungary's non-inclusion in the United States cheese quota in many GATT fora and in particular in the preceding meetings of the International Dairy Products Council. However, the United States had always referred to their current national legislation, i.e. dairy import quotas could be extended only through procedures under Section 22 of the
Agricultural Adjustment Act. According to the information of his authorities, the quotas applied for cheese imports were subject to legislative review and procedures every three years; the validity of current quotas would then expire at the end of 1982 and newly allocated quotas to be approved by the United States legislation would be applied as from 1 January 1983. Considering that Hungary had unchanged and substantial interest in supplying cheese to the United States market, but in the absence of any quota had no assured access to it and taking into account the fact that the United States delegation took note several times of the Hungarian request and that the only obstacle mentioned by that delegation was the relevant legislation in force, the Hungarian delegation hoped that, while establishing and allocating the new cheese quotas for the United States market valid as from January 1983, Hungary's substantial interest in this field would be taken under careful consideration and, consequently, the new United States legislation administering the cheese quotas would be in full conformity with Article XIII, paragraph 2 of the General Agreement.

32. The representative of the United States said that he had taken note of the Hungarian request and would forward it to his authorities. The most appropriate approach for Hungary might perhaps be to take up the matter bilaterally with the competent authorities in Washington. It was his understanding that such contacts had already been made and were to continue.

33. The representative of Switzerland noted that there had been no changes in his country's dairy policy since the reply of July 1981 to the questionnaire. An increase in the milk price was currently under examination and any decision would be notified in accordance with the procedures under the Arrangement.

34. The representative of Sweden recalled that as stated in July 1981 no agreement had been reached during the negotiations between the farmers and the consumers regarding the price regulation system to be applied from 1 July 1981 and the previous three-year agreement was prolonged for one year. New negotiations had taken place during recent months and an agreement had been reached regarding the price regulation system to be applied for a two-year period running from 1 July 1982; there were no basic changes in comparison with the previous regulation. During those negotiations special attention had been given to measures to avoid surpluses within the animal product sector in order to comply with the aim laid down in the 1977 Parliamentary decision regarding the Swedish agricultural policy which said that domestic production within the sector should be adapted to domestic demand. A decision by the Parliament was expected some time early in June, and details concerning it would be submitted in the next reply to Questionnaire 5.

35. The representative of Finland said that there had been no major changes in his country's dairy policy in the past year; it aimed at securing a better balance between production and domestic consumption. Various measures had been introduced to curb production and since 1977 agreements
had been concluded between the State and producers to shift from animal production to other production. Since 1981 a bonus system had been established for producers who reduced or halted their milk production for one to three years. In addition, the establishment of large production units (more than twenty cows) was subject to official permission. Those various measures had contributed to the 3 per cent decline in milk production recorded in 1981, as had unfavourable weather conditions. Under an agreement negotiated between the State and producers those measures, some of which were due to expire at the end of 1982, would continue in effect in 1983. With respect to agricultural prices, it had been decided on 1 March to encourage increased grain production because Finland's self-sufficiency rate was very low in that sector. The various measures would be described in response to the questionnaire.

36. The representative of Austria said that no fundamental changes had been made to his country's dairy policy since the last notification, the only adjustments having been in respect of prices of the various products.

37. The representative of Norway said that there had been no changes in his country's dairy policy since the last notification. Because of the pronounced increase in deliveries to dairies in the early months of 1981, measures had been introduced such as an increase in the premiums granted to stabilize production, and introduction of a slaughtering premium for milch cows. Since the introduction of those measures, production had levelled off and for 1981 as a whole the increase had been by 1 per cent. Measures to be applied from 1 January 1983 were currently being discussed with the farmers' associations; it was possible that a quota system (based on deliveries in the past three years) or a two-price system might be introduced. Negotiations were to take place between the government and those associations regarding the new agricultural agreement to be concluded before 1 July 1982.

38. The representative of Uruguay noted that the only measure directly influencing production by the dairy sector was the fixing of the producer price of milk for liquid consumption. That price was adjusted quarterly on the basis of weighted changes in the cost of four indicators: labour, rate of exchange, bran and gas oil.

39. The representative of Romania referred to certain measures taken under the "National programme for development of zootechny and animal production". Contractual and purchase prices were granted to agricultural production co-operatives, State agricultural enterprises and also to individual producers in order to increase milk output. The premiums granted to individual producers represented 11 per cent of the purchase price per litre for deliveries up to 500 litres of milk per cow or buffalo, and 28.6 per cent to 39.3 per cent for deliveries exceeding 500 litres. Premiums were granted to agricultural production co-operatives representing 14.3 per cent of the purchase price for quantities up to 1,000 litres of milk per cow or
buffalo each year. For deliveries exceeding 1,000 litres, the premium was at the rate of 17.9 per cent to 39.3 per cent of the purchase price. Premiums representing 19 per cent of the purchase price were paid to agricultural units and individual producers in respect of ewe's or goat's milk delivered under contract for State account. Members of agricultural production co-operatives and individual producers who concluded delivery contracts for cow's or buffalo's milk for State account, could buy, at the retail price, concentrated feeding stuffs in proportion to their deliveries. In addition, individual producers could obtain long-term credits from the State.

40. The observer for Canada said that his country's dairy policy had been under review for the past eighteen months or so; the delay was due primarily to difficulties encountered by an independent consultant in analysing production costs. No decision had yet been taken but a new policy was expected to be in place by 1 August 1982; it was not yet known which changes, if any, would be made to the existing policy.

41. The Council took note of those statements, and in particular of the concerns that had been expressed. It was also recalled that, in accordance with the Rules of Procedure, all decisions regarding dairy policies should be notified to the Council. It was desirable that such notifications should be made as early as possible, in particular in areas in respect of which concern had been expressed.

Food Aid

42. The representative of the European Economic Community underlined the importance of food aid furnished by the EEC in the form of dairy products and the efforts being made to ensure that such aid was independent of the Community's production situation. Under the current programme, food aid operations totalled 150,000 tons of skimmed milk powder and 45,000 tons of butter oil each year. Programming on a pluri-annual basis allowed recipient countries to know in advance how much aid they would be receiving. The aid was furnished free of charge, and even in certain cases freight costs to recipient countries were covered by the EEC; in implementing the programme, care was taken not to cause injury to commercial exchanges.

43. The representative of New Zealand underlined certain points which he had mentioned in the committees, and in particular the fact that the use of dairy products in international food aid should not be simply an excuse to export unwanted domestic surpluses which had been created by an unrealistic domestic support policy. The effects on international dairy markets of international aid programmes required further analysis by the International Dairy Arrangement. The analysis should focus on the need for distributive controls to ensure that any detrimental effect on international prices of increasing food aid was limited. Donors should ensure that adequate controls existed in the recipient countries to prevent food aid shipments from disrupting normal commercial shipments.
44. The observer for FAO recalled that the international body mainly concerned with food aid and control of it was the Consultative Sub-Committee on Surplus Disposal (CSD), a subsidiary body of the FAO Committee on Commodity Problems. The FAO Quarterly Food Aid Bulletin, one of the sources for the secretariat note on food aid operations, was largely based on information submitted to the CSD. The World Food Programme was the major international organization through which multilateral food aid was distributed and its activities were closely monitored by the Committee on Food Aid Policies and Programmes (CFA). Surplus disposal, concessional sales of agricultural products and food aid had been of special interest for many years and a code of practice had been built up on the basis of experience gained in that area. It was described in an FAO publication entitled "The Principles of Surplus Disposal and Consultative Obligations of Member Nations"; copies of that publication had been made available to participants in the Arrangement. Stressing the openness and transparency of CSD activities, the FAO observer indicated that among the subjects within its purview, there were nevertheless certain twilight zones. The CSD had worked out very detailed definitions of different transactions, allowing accurate assessment of the implications of any food aid transactions notified to it. In certain cases, consultations with interested countries were required before transactions could take place. Meetings were held monthly, a frequency which allowed consultations at very short notice following notification of transactions. Under CSD procedures, certain transactions had to be notified and could then be discussed. It was understood that members of the CSD could, if they so wished, raise the question of other transactions even if they had not been notified to the CSD.

45. The representative of the EEC suggested that, to allow more accurate assessment of the situation in the world dairy market, it would be appropriate if, under Article V:3 of the Arrangement, all countries participating in the Council's work could undertake to notify to it all transactions other than normal commercial transactions and in particular those within the "grey area" which were not notified to the CSD. In that connection, it was relevant to mention the agreement between the United States and Jamaica which, in the view of the EEC delegation, did not correspond to a purely commercial transaction and should have been notified.

46. The representative of the United States said that, in his view, the obligations under the Arrangement had been and would continue to be fulfilled. Any additional element would have to be examined. His authorities considered the transaction between the United States and Jamaica to be a commercial transaction, as reflected in the prices indicated; no special notification of commercial transactions was required under the Arrangement. With respect to the transparency which had been mentioned, he had furnished the relevant details requested and would be perfectly willing to discuss other transactions likewise and on the same basis.

47. The representative of Australia noted that in the view of the United States representative, the transaction mentioned was not required to be notified under Article V:1(b) since it was not a food aid transaction.
Nevertheless, the provisions of Article V:3 concerned not merely food aid transactions, but all transactions other than normal commercial transactions; accordingly they would be applicable to a barter transaction and might imply a consultation obligation.

48. The representative of New Zealand said that the information furnished by the United States delegation had represented an appreciable contribution and it was to be hoped that such contributions would be made, where appropriate, by all delegations concerned. In the view of his authorities barter transactions were a new development in the dairy trade and did fall outside the category of normal commercial transactions. Under the Arrangement such transactions were within the purview of Article V:2 and should, therefore, be carried out consistently with the CSD principles.

49. The Chairman recalled that food aid transactions as defined by the CSD were subject to obligations of consultation and notification, although the obligations varied depending on the nature of the transaction. For the work of the Council to be fully effective, however, detailed information was needed in respect of all transactions. The information communicated had contributed to market transparency and it was to be hoped that such contributions would be forthcoming on a regular basis in order to achieve the maximum transparency possible in this area.

50. The Council took note of those statements.

**Products not covered by the Protocol**

51. With respect to trends in production and consumption of milk, the following indications were communicated to participants:

**Australia:** Seasonal conditions had improved throughout the country except in Western and South Australia. Consequently, it was expected that milk production in 1981/82 would be slightly higher than the previously forecast 5,000 million litres.

**Bulgaria:** Milk production in 1981 had been well up on the preceding year's level, as a result of increased output of ewe's milk.

**EP:** An increase by about 2 to 2.2 per cent was forecast for milk production in 1982 in relation to 1981.

**Finland:** In the second half of 1981 milk deliveries to dairies decreased by 7 to 8 per cent; the average decrease in 1981 had been 3 per cent. It was estimated that milk production would decrease again by about 3 per cent in 1982.

**Japan:** Milk production had reached 6,620,000 tons in 1981, a 2 per cent increase over the previous year. Consumption of milk for drinking had increased by 3.7 per cent in 1981. Consumption of milk for processing decreased by 0.9 per cent in 1981 after dropping by 5.4 per cent in 1980.
New Zealand: It was unlikely that output for the whole 1981/82 season would exceed the 1980/81 total. Liquid milk consumption was declining. Cream sales had remained steady in spite of price increases.

Sweden: During the second half of the seventies, milk production had increased as an average by about 2 per cent per year. However, a slowdown had been noted in 1981 mainly due to unfavourable growing conditions. As a result of continued increase in productivity, the annual production growth rate was estimated to return to the former rate of 2 per cent during the next few years.

Switzerland: Despite the quota system, a slight increase in milk production was possible in the course of 1982.

United States: Total production in 1982 was expected to be up about 3 per cent. It was hoped that by the end of the year the production would start to decline or that the rate of increase would fall. Cattle numbers were anticipated to be up approximately 1 per cent in 1982. Yields also were expected to be up reflecting lower feed prices.

52. The representative of Australia indicated that there had been vigorous growth shown in Australia in the consumption of such dairy products as ice-cream, yoghurts and sour cream over the last few years. For example, sales of yoghurts increased from 19,000 tons in financial year 1976/77 to 27,000 tons in 1979/80; these products showed a continuing strong potential growth for sales. As regards casein, the representative of Australia noted that in the course of this year, the United States International Trade Commission had decided for the second time in three years that the threat to the United States production from imported casein was negligible; an interdepartmental recommendation not to impose restrictions on the importation of casein was sent to the White House in early March. There was no legal requirement on the United States President to make a decision. However, he asked the United States delegate to report to his authorities the Australian desire for a decision to be made. Australian production is clearly responsive to the conditions of access into the United States and the absence of a final determination on casein quotas had an unsettling influence on the production planning of the industry.

53. The representative of New Zealand associated himself with the Australian representative's remarks. The uncertainty inherent in the situation with regard to casein had an unsettling influence in particular with regard to forward planning. His delegation certainly trusted that the United States President would agree that casein remained free from import restrictions and make a decision on this matter.

54. The representative of the United States took note of those comments. He indicated that he would not assume there would be any recommendation for restrictions.
55. The representative of the European Economic Community said that the current situation on traditional markets showed a slight decline in sales which, in combination with dollar fluctuations, was reflected in slightly weaker international prices. Additional information on trends in countries such as the USSR or developing countries would be useful for more comprehensive forecasting regarding the current milk year.

56. The representative of Egypt expressed the concern felt by importing developing countries over the upward trend in export prices for dairy products, which was occurring at a time when those countries, including Egypt, were facing increasing difficulties in financing their imports and when their balances of payments were already burdened by other priority expenditures such as rising foodstuff imports and social and economic projects. The Arrangement included provisions regarding the economic and social development of developing countries, and account should be taken under that instrument of the interests of both importing and exporting countries in the prices applied.

57. The observer for the Economic Commission for Europe outlined the overall situation in Eastern Europe and the USSR. He noted that cow numbers in Eastern Europe at the beginning of 1982 were at about the same level as in 1981 (about 14 million head). The USSR reported a marginal increase from 43.4 million in 1981 to 43.6 million head in 1982. In 1981, milk production in Eastern Europe, excluding the USSR, decreased by 3 per cent. The strongest decline was registered in Poland (about -7 per cent). All the countries of the region experienced feed difficulties due especially to adverse weather conditions. In the USSR milk production dropped by 2.4 million tons to 88.5 million tons (a decline of 3 per cent). Milk yield per cow was down by 6 per cent, probably reflecting inadequate feed supplies. Butter production in Eastern Europe, excluding the USSR, declined by 6 per cent. Except in Bulgaria and in Hungary, where production increased by about 2 per cent, in all other countries a decline was registered, the strongest one took place in Poland (around 12 per cent). In the USSR butter output dropped by 5 per cent. Concerning the butter imports of the USSR, their volume would depend on the priority given to the different import requirements of this country.

58. The observer for OECD referred to the main findings made recently by the OECD Dairy Group. The United States situation was currently viewed as being the greatest crisis point in the world dairy market. The important role of that country's dairy policy had been underlined; in addition, the price of animal feedingstuffs was seen as a factor leading to existing surpluses, likewise the implications of cereal and monetary policies. While developments in the United States, and action taken there, were of particular interest, account should also be taken of the fact that EEC production was likely to increase more in 1982 than in 1981 when weather conditions had been unfavourable. On the other hand, the production decline
in Australia might be coming to an end. In New Zealand, however, the
current drought was likely to inhibit the production increase previously
forecast. On the demand side, much stress had been laid on developments in
Eastern Europe and still more in the USSR. Although there was plenty of
demand, financing difficulties could have serious implications. The
oil-producing countries had played an important rôle in recent years, but
their situation had become less favourable in the past few months. Those
pessimistic indications had led the Dairy Group to the conclusion that a
very cautious approach was necessary. The OECD Secretariat was currently
compiling medium-term forecasts (for a period up to 1987) and some
preliminary results could probably be reported to the Council at its next
session.

59. The observer for FAO recalled that developing countries were of key
importance in the market for dairy products, since in terms of milk
equivalent, they took up about three quarters of world imports (excluding
intra-EEC trade). While it was difficult to evaluate their real needs,
which might not necessarily correspond to effective demand, there were,
nevertheless, a number of points suggesting that imports by these countries
in 1982 might be below the preceding year's level. Among those factors,
there was the case of some countries whose past domestic policies had not
favoured domestic production as much as they might have but where those
policies seemed to be strengthening; Brazil was one such country where,
furthermore, demand growth seemed to be slowing down. In India, too, where
special factors had led to a high level of import demand in 1981, imports
could be expected to drop back. In another group of countries, where dairy
imports had been developing freely, both as regards import controls and in
respect of foreign exchange availabilities, a similar consequence was
possible because of reduced foreign exchange availabilities and higher
prices.

60. The representative of Argentina noted, in connection with the Brazilian
market, that according to certain reports there seemed to have been not a
fall in demand but, at least for certain products, a change of suppliers.

61. The observer for Canada noted that the current situation in the dairy
industry was explosive. Any disposal of existing surpluses on the
international market would have disastrous implications for that market and
would deprive certain exporters of outlets. Over the past six months Canada
had lost 65 per cent of its market for milk powder. The only way of
avoiding a crisis in the market for dairy products lay in co-operation that
would allow a concerted line of action to be established. In the past, the
United States had succeeded in holding down production through a price
system, and in the current situation certain factors such as the low price
of beef had played a rôle. Without under-estimating the importance of any
future measures that might be taken in that context, the problem to hand was
that of existing stocks. If any programme for placing them on the
international market were established without due consultation and
agreement, the situation in that market would be more than seriously
jeopardized. Before any decision, dialogue was necessary to determine the
terms of a compromise in order to preserve a situation that had been relatively sound in recent years. In that connection, the consequences of sales or donations were not always apparent immediately; with respect to sales of skimmed milk powder to Mexico, the increase in deliveries was reported to have had the effect of raising stocks from around 17,000 tons in December 1979 to 127,000 tons in December 1981.

62. The representative of the European Economic Community said that stocks in the EEC were currently at perhaps the lowest level ever recorded. While an increase by about 2.2 per cent in Community production was forecast for 1982, the Commission's proposal for price review provided for the maintenance of all internal disposal measures and should allow the situation to be kept under control. Nevertheless, keen concern was being felt over the current level of United States stocks; domestic disposal of those stocks should be encouraged by appropriate measures, for any reckless disposal on the international market could cause a considerable slump in prices and even market disruption.

63. The representative of New Zealand noted that in view of the current situation, dialogue was essential for dealing with that potentially explosive problem.

64. The representative of Australia recalled that he had already requested the United States, in the event that disposal of stocks on the world market was envisaged to provide adequate opportunities for prior notification and consultation with countries having a commercial interest in the world dairy market.

65. The representative of the United States said that he had taken note of the concern expressed by many participants regarding the level of stocks in his country; that concern was shared by his national authorities who were giving close attention to the situation; the matter was not solely one of dairy policy, and other sectors, in particular animal feed, must also be taken into consideration. With respect to the requests made for consultations and discussions, existing possibilities should be used for that purpose, and the principles and practices of the CSD were particularly relevant.

66. The Chairman noted that it was clear from the various statements made that concern was being felt over the general situation and outlook in the international market for dairy products, which should be the subject of continuing close attention. He expressed the hope that any decisions taken and continuing dialogue among participants would allow the situation to be kept under control without any need for recourse to the provisions of the Arrangement which might otherwise have to be implemented. He thanked the observers for the significant contribution they had made to the Council's work.
E. Other business

Ministerial meeting

67. The Chairman drew the Council's attention to the request which the Preparatory Committee had made to the various GATT bodies to present to it the contributions they might wish to make with a view to the Ministerial meeting.

68. The Council agreed to request its Chairman in consultation with delegations and subsequently in consultation with the Chairman of the Preparatory Committee, to take up the question of a report to the Preparatory Committee along the following lines: the International Dairy Products Council advised the Preparatory Committee that, during its first years of operation, the International Dairy Arrangement had functioned satisfactorily and that the Arrangement had indeed contributed to the stability of the international market. The Council noted that developments in the international dairy market depended on a number of factors, among which effective co-operation among its participants would be of decisive importance. Such co-operation would be strengthened by increased participation in the Arrangement itself and the continued strict application of its provisions. The manner in which this report was presented, under the Chairman's own responsibility, would be left to the discretion of the Chairman in consultation with delegations and the Chairman of the Preparatory Committee.

69. With respect to broader participation in the Arrangement and the improvement that would result, the secretariat recalled the past negotiating history of the Arrangement and the efforts that had been made to allow its acceptance by one of the negotiators, Canada, which was currently participating in the work with observer status. It would be desirable to reactivate the search for a solution allowing Canada's full participation. In addition, having regard to the role of developing countries in trade in dairy products, it would be desirable for more of those countries to be represented among the participants.

70. The observer for Canada said that he would inform his authorities of the remarks made; although there had been no change in the conditions regarding more active participation by Canada, the dialogue could still be continued.

Date of next session

71. In accordance with the preliminary programme, and subject to confirmation by the secretariat, the Council's next session will be held on 30 September and 1 October 1982.

Other matters

72. The Chairman said that he would prepare, under his own responsibility, a note on the current session and would have it circulated.