Introduction

1. The Management Committee held its eleventh meeting on 22 February 1972.

2. The Committee adopted the following agenda:

   1. Adoption of agenda.
   2. Adoption of the minutes of the tenth meeting (MCDP/11).
   3. Information required by the Committee under Article IV or other Articles of the Arrangement.
   4. Review of the market situation.
   5. Other business.

Adoption of the minutes of the tenth meeting

3. The Committee adopted the minutes MCDP/11.

Information required by the Committee under Article IV or other Articles of the Arrangement

4. The representative of Australia stated that Australian stocks of skimmed milk powder totalled 5,659 tons at the end of December 1971, or about half those at the end of 1970. Recent exports had been shipped at prices averaging $32.67 per 100 kgs. in November 1971, $42.47 in December 1971, $43.52 in January 1972, with a minimum at $31.36 and a maximum at $58.50. As regards transactions under derogation relating to Article III, paragraph 5, export prices averaged $58.50 in November 1971 to January 1972. Small quantities of whey powder had been imported during the fourth quarter of 1971.

5. The representative of the United Kingdom indicated that stocks of skimmed milk powder at 23,200 tons at the end of December 1971 were lower than at the ends of 1970 and 1969. He added that the United Kingdom stocks had been falling sharply due to the high prices in the world market, and might be further reduced by April/May.
Review of the market situation

(a) Present market situation and prospects

6. The representative of Switzerland indicated that stocks of skimmed milk powder at the end of the fourth quarter of 1971 were about three times higher than a year earlier. The volume of imports into Switzerland in 1971 was comparable to that of the previous year. As regards prospects, the increase in milk deliveries might be reflected in production of skimmed milk powder. Prices had risen sharply in 1971 but there were indications of a possible downward trend in import prices in the first months of 1972.

7. The representative of New Zealand said that relatively good weather conditions and rising prices for milk had a stimulating effect on New Zealand's skimmed milk powder production. It was expected that next season's production would be significantly higher than those of the two previous seasons which had been affected by exceptional droughts.

8. The representative of Australia said that production of skimmed milk powder in 1971 would probably be some 15,000 tons lower than in the previous year, when it had amounted to 84,000 tons; the market situation was rather firm with export demand exceeding the possibilities of supply.

(b) Discussion on the possible modification of the minimum price

9. Recalling the question he had raised at the last meeting, on 18 October 1971, the representative of Denmark said that at the time the Arrangement was negotiated the minimum price level of $20 per 100 kgs. f.o.b. was accepted on the understanding that this level might be raised if the world market permitted. In 1970 the market prices had gone up to such an extent that the Committee agreed positively to consider a raise in the minimum price; the raise decided on in 1971 had, in fact, been very cautious. Since then the market situation had considerably improved and prices had become stable at a higher level, at or near which they are likely to remain in the foreseeable future. He reiterated his position that this would justify an increase in the minimum price and that a level which would be safe and well below market prices would be about US$35 per 100 kgs.

10. The representative of Switzerland said that the suggestion by the representative of Denmark merited further discussion.

11. The representative of the EEC supported the views expressed by the delegate of Denmark. He pointed out that, given the sustained rise of export prices for skimmed milk powder in 1971, which had even become reinforced since last October, the Committee should now recognize the desirability of reviewing the minimum price. According to the Community's forecasts, a certain shortfall in the world market might be expected in the short and medium term. One had to take into account that a structural and not only a short-term change had occurred in the market. The level proposed by the Danish delegate would thus not involve any
risks. It was also important, at this time, to "valorize" dairy production in importing countries, which, in most cases, were producers themselves, as well as in exporting countries. The proposed level would in a way offer a more remunerative return to producers.

12. The representative of South Africa observed that the level of world market prices was but one of the factors which should be taken into consideration. The aims of the Arrangement were, firstly, to prevent excessive price competition and to restore some order in the dairy markets, secondly, to ensure reasonable return to the producers. He agreed that a relationship existed between the minimum price and world market prices but this relationship would not justify drastic upward or downward adjustment based on short-term fluctuations in market prices. The minimum price should be high enough to ensure a reasonable return to producers but it would be unwise to raise it to a level which might be difficult to sustain in the long term. In his view, an increase up to $30 per 100 kgs. f.o.b. would ensure reasonable returns to producers and would be sustainable in the future. He added that the price mentioned did not include a possible adjustment that might be required as a result of the pending change in the gold-parity of the US dollar.

13. The representative of the United Kingdom said that it was too early in the year to suggest a figure of US$35. He pointed out that in addition to the concept of reasonable return one had to take into account what the market situation would be in the near future. While the present high prices had so far not led to substitution, this was not to be ruled out for the months to come.

14. The representative of New Zealand pointed out that prices of skimmed milk powder had been maintained at previous levels but that some buyer resistance to price increases in recent months had been noticeable; prices had found a certain ceiling and world markets seemed to be stabilized. One should, therefore, be guided by a long-term view. He observed that, in establishing a minimum level of price, New Zealand had to take into account the importance of market developments particularly in new markets in the Southern Hemisphere. New Zealand wished to promote those new markets and had sold skimmed milk powder to low-income countries whose governments were not able to subsidize imports. Moreover, consumers had to be protected to a greater extent than they had been. In case of a significant increase in the European production and assuming a return to good weather conditions in the Southern Hemisphere a new minimum price of US$35 might not be sustainable in the longer run. He considered that at the beginning of the new European production season, this question should be approached with a degree of caution. Against this background, an increase in the minimum price to US$35 seemed somewhat high.

15. The representative of Australia agreed that skimmed milk powder prices might have reached a ceiling beyond which outlets might diminish, and it was relevant to have regard for the situation in importing countries. The minimum price should be regarded as a floor price and should, in time of excess supply, ensure a remunerative price to producers; however, it was difficult to find a fixed level and a single figure and say what this reasonable remuneration should be.
Australia had sold in recent months as high as US$58.50 per 100 kgs. but also as low as US$31.26, because it was concerned about the longer-term aspects of the market. Obviously, the minimum price was not having any effect on the actual market situation and should be maintained at its actual level. He asked the representative of the EEC whether the implicit aim of his authorities was to increase the minimum price to the level fixed within the Community.

16. In reply, the representative of the EEC stated that there was no link between the domestic prices in the EEC and the minimum price of the Arrangement. He agreed with other delegates that the minimum price was a floor price; it was not to be regarded as the price at which skimmed milk powder should be traded.

17. The representative of Japan said that he could support to varying degrees most of the views expressed by the delegates of Australia and New Zealand. He agreed that prices of skimmed milk powder in world markets had indicated upward trends in recent months. However, he doubted that it was possible to conclude from recent changes in the skimmed milk powder situation whether the structure of the market had changed so as to warrant considering another upward adjustment of the minimum price. The rôle of the Arrangement was to prevent the fall of market prices below a fixed minimum; the minimum price should be construed as a measure of coping with the contingency of an upset in the supply-demand balance. On the other hand, the minimum price did not prevent the market prices from rising above the level of the minimum price. The minimum price had already recently been raised and one should not conclude that the minimum price should go up automatically with market prices. He considered that a very prudent position should be taken on this issue. He informed the Committee that his position remained unchanged since the last meeting and that he was not authorized at the moment to discuss whether the minimum price should be raised or to what extent it should be raised.

18. The representative of Spain supported the view expressed by the delegate of Japan; in the view of his authorities it was not necessary to modify the minimum price. It did not seem prudent to raise the minimum price just because the market was in a situation of short supply. He was not authorized to discuss a figure which could be proposed for an increase in the minimum price nor to take a decision at this meeting.

19. The representative of Canada agreed with those who said that the minimum price should be regarded as a floor price; its rôle was to reduce the heavy losses to exporting countries during temporary surplus periods; its level had to be maintained in changing supply circumstances. At the beginning of a new production season, there was some uncertainty as to the future supply situation. Canada was concerned about the impact a higher price might have on consumer demand and it would prefer to maintain the present minimum price level. On the other hand, if there were a consensus to increase the minimum price, Canada would not be an obstacle to such a decision. However, an increase to $35 might be a little high.
20. The representative of Ireland observed that trends in world markets were indicative of a strong market position which was likely to continue in the near future. World market prices of skimmed milk powder were well above the minimum price. Ireland was not in a position to meet all export demand. In considering the price of a commodity one also had to take into account the present world inflation. In the light of these arguments, Ireland was able to support the idea of an increase in the minimum price, the extent of which could be considered further.

21. With regard to the question whether an adjustment should be made in the level of the minimum price to reflect the forthcoming formal change in the gold-parity of the US dollar, the representative of Australia said that the concept of a reasonable remuneration in the national currencies of the exporters could not be directly taken into account. Current prices were well above the minimum price and, therefore, the changes that had occurred in the exchange markets had no bearing on the working of the Arrangement. However, changes in the exchange markets could be taken into account if a modification in the minimum price was under consideration on other grounds.

22. The Committee agreed that, as certain delegations were not in a position to take a decision at the present meeting, it would revert to the question of the modification of the minimum price and take a decision at its next meeting. It would consider this question together with the question whether any modification was needed in the minimum price because of the gold-parity change of the US dollar. The members of the Committee agreed to come to the next meeting duly empowered to take such a decision. It was understood that, in the meantime, private consultations would be held among delegations with, if necessary, the help of the secretariat.

Other business

Duration of the Arrangement

23. The Committee noted that the time-limit of eighty days provided for in paragraph 2 of Article VIII was due to expire on 24 February 1972, and agreed to extend the Arrangement for a further period of one year, beginning 14 May 1972.

Skimmed milk powder for welfare purposes in Japan

24. The Committee considered a request by the representative of Japan for a new derogation under paragraph 5 of Article VII, from the provisions of paragraph 9 of Article III. The representative of Japan said that the derogation would apply to fiscal year 1972/73. It was the intention of Japan to import during the fiscal year 1972/73 15,020 tons of skimmed milk powder (11,500 tons for the school lunch and 3,520 tons for welfare programmes). During fiscal year 1971/72 Japan had concluded contracts for the purchase of skimmed milk powder for school lunch programmes with New Zealand (5,000 tons) and the United States (4,000 tons). A further 1,000 tons were scheduled to be contracted for during 1971/72 fiscal year.
A contract for 3,589 tons for welfare programmes had been concluded with New Zealand. He added that the Japanese Government was of the hope that the same favourable consideration as before would be given by the Management Committee to the present request.

25. The Committee agreed to deal with this question at its next meeting and invited the delegation of Japan to present a written communication including price information in order to facilitate a decision.

Communication from the International Dairy Committee

26. The Committee was informed that the International Dairy Committee had written to the Director-General, submitting the text of a Model International Agreement on Dairy Products prepared by that Committee. The Management Committee noted that the Model Agreement would be brought to the attention of the Working Party on Dairy Products.

Next meeting

27. The Committee agreed to hold its next regular meeting on 2 May 1972, subject to confirmation by the secretariat.