Introduction

1. The Management Committee held its twelfth meeting on 10 May 1972.

2. The Committee adopted the following agenda:

   1. Adoption of agenda.
   2. Adoption of the minutes of the eleventh meeting (MCDP/12).
   3. Information required by the Committee under Article IV or other Articles of the Arrangement.
   4. Review of the market situation. Possible modification of the minimum price.
   5. Skimmed milk powder for welfare purposes in Japan.
   6. Other business.

Adoption of the minutes of the eleventh meeting

3. The Committee adopted the minutes MCDP/12.

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

4. Referring to the price information supplied by the United Kingdom in document MCDP/STAT/16/Add.3 (page 4), the representative of Austria pointed out that the import prices from Austria during the first few months of 1971 were lower than those shown for other sources for the same period. These lower prices were in respect of a contract which had, in fact, been concluded before the entry into force of the Arrangement but which could be executed only in the first half of 1971.
5. The representative of New Zealand stated that the official government statistics, from which the information for the quarterly questionnaires were drawn, were no longer available as from January 1972. The responsibility for tabulation of these statistics had been transferred to a newly-established government computer centre. He asked for the indulgence and understanding of the Committee on that matter over the next nine months. In the meantime statistical information would be provided from other sources, essentially the Dairy Board. However, the strict comparability with earlier data could not be guaranteed. In particular, the prices in international trade reported to the secretariat in the past had been spot prices, which did not cover contracts for milk recombining. The main part of New Zealand exports were going to the milk recombining trade, at prices mostly fixed for six-monthly periods in rolling contracts. Spot prices had recently taken on a rationing character and had been diverging from a truly representative level. All prices reported in the future would be the true weighted average prices and not spot prices.

Review of the market situation. Possible modification of the minimum price

(a) Present market situation and prospects

6. The representative of the EEC considered that the trade situation was still relatively sound. EEC production had not yet really started to increase significantly and the Commission still had obligations to fulfil under the World Food Programme. Recent EEC exports were almost nil; only minor quantities had been shipped, in small packages, for infant food and dietetic purposes. The export tax on skimmed milk powder had been decreased from 20 to 13 and recently to 9.5 u.a. per 100 kgs. Taking into account the devaluation of the US dollar, certain exports could now possibly take place at $64 to $65 per 100 kgs. The export tax would be applied up to the end of June 1972. The Commission would not promote exports, in order to avoid a shortfall in the Community market. The internal market price had recently somewhat declined; and was around the new intervention price of 54 u.a. per 100 kgs.

7. The representative of New Zealand agreed that world demand remained strong, and indicated that present stocks were lower than at the same time in the previous year. However, the conditions of acute shortage experienced in 1971 appeared to have eased. Prices had levelled out and were expected to remain at present levels for some time to come.

8. The representative of Denmark, agreeing with the representatives of EEC and New Zealand, said that the market situation was very stable and according to indications available to him was expected to remain so. According to his information, recent export prices were between $55 and $62 per 100 kgs.

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

9. The representative of New Zealand said that his country's primary objective in establishing a price was to find a figure that the Committee as a whole would feel to be fair and reasonable both for producers and for consumers. He hoped that having found such a figure it would be possible to keep it unchanged for a
very long period of time. It was not desirable to change the minimum price, which is a floor price, in order to reflect temporary changes in world market levels. Taking into account the present market situation and the recent currency alignments it would not be unreasonable, in his view, to go as high as $30 per 100 kgs. for the minimum price if there was a consensus in the Committee. He added that any figure between $25 and $30 would be fair to world producers and consumers and acceptable to him, but a figure over $30 would not be acceptable or desirable.

10. The representative of Denmark agreed that a minimum price should be fair and reasonable both for producers and consumers and should not be raised if there was a risk that it might need to be changed again after a short time. However, the reported recent prices had confirmed that the market situation had indeed become stable and this would justify a considerable increase in the minimum price and that the new level could be maintained for a long time to come. On the other hand, a small piecemeal increase would not be justifiable and not really worthwhile.

11. The representative of the EEC supported the views expressed by the delegate of Denmark. He recalled that during the negotiations for the present Arrangement in the last months of 1969, the Community had proposed a level approaching $30 as being equitable both for producers and consumers. Since then the market situation had considerably improved and the Community had proposed an increase in the minimum price at the last meeting in February. At that time, some delegations had expressed uncertainty as to the future supply situation, but this was no longer applicable as a new production season had already begun since. He added that the prices at which some recent contracts had been concluded justified a reiteration of the Community's proposal, and that an increase from $25 to $35 in the minimum price would be equitable, appropriate and reasonable.

12. The representative of the United Kingdom recalled his earlier remarks that it was difficult to find a fixed single figure as representing a reasonable price for all, because production conditions differed between countries. He pointed out that the dairy situation had changed very much since the time the Arrangement had been negotiated in 1969. World market prices had become stable at a higher level near which they were likely to remain for some time. He thought that it would be possible to raise the minimum price and to leave it unchanged for several years. Traders in his country had been consulted and all, including those who imported, had agreed that about $35 per 100 kgs. would be reasonable.

13. The representative of Canada said that the level of the minimum price needed to be a level which could be sustainable in a surplus situation and which should not constitute in itself an incentive to overproduction. If there were a consensus to increase the minimum, Canada would not be an obstacle to such a decision. He agreed with the delegate of New Zealand that the new minimum price should not be set higher than $30 per 100 kgs. and should remain at that level for a long period of time.
14. The representative of Spain said that his authorities had considered the problem since the last meeting, but their position remained unchanged. In their view, there was no imperious reason to increase the minimum price. The minimum price had been established as a floor price in order to avoid chaos in world market. It had not prevented exporters from selling well above the level of the minimum price and thus was not creating any problem for actual trade in skimmed milk powder. An increase in the minimum could, however, lead to problems for importing countries in the longer term.

15. The representative of Japan informed the Committee that his Government had treated the matter of a possible modification of the minimum price with positive interest and had analyzed the situation very carefully. However, the position of the Japanese Government had remained unchanged. The minimum price should be regarded as a floor price, aimed at preventing a precipitate fall of market prices below the fixed minimum at $25 per 100 kgs. It should therefore not be revised frequently. Such frequent revisions motivated only by the prevailing price factors would tend to nullify the very significance of the Arrangement. A modification in the minimum price should take place only if a fundamental change in production and market structures had clearly occurred. His Government was not convinced that a structural change had taken place in the skimmed milk powder market situation. A rather steady downward trend was noticeable in the market prices since the end of 1971; prices had fallen from the peak of about $75 c.i.f. at the end of 1971 to $62 in May 1972. A self-adjusting mechanism of the market seemed to be in force in order to correct the short-term market imbalances between demand and supply and to help to stabilize market prices at a lower level. In this rather uncertain market situation it was neither urgent nor necessary to modify the minimum price at such a short interval and frequency. He agreed with the representative of Spain that the present minimum did not affect the price formation in the actual market.

16. The representative of Australia said that his authorities had given a good deal of thought to the proposal. Given that the present market situation was indicating some stability at a price level much above the minimum and that the US dollar has recently been devalued, they would be able to concur with a small increase in the minimum price. This, however, on the understanding that the new minimum would be maintained unchanged for a long period of time. Any increase agreed should therefore be sustainable under pressure so as to stand the test of time. Noting that some delegations had felt that the present market situation was still uncertain and not permanent, and agreeing that account should be taken of the position of importers, he suggested that if a decision could not be reached at the present meeting the Committee might usefully revert to the matter in a few months' time by when the nature of the market situation might be more clear. He added that unlike the delegate of Denmark he considered that a small increase in the minimum price might be worthwhile.

17. The representative of Switzerland said that in the view of his Government a floor price should be stable and vary as little as possible. On the other hand, his Government also considered that the market situation had improved and prices had stabilized at a level well above the actual floor price. Taking also into
account some general considerations, such as the recent currency alignment, the Swiss Government would not be opposed to an increase in the minimum price. The increase, however, should not be too large. The level of $35 per 100 kg, proposed by certain delegates would be acceptable to Switzerland.

18. The representative of South Africa said that his position was fully covered in the minutes of the previous meeting (MCDP/12, paragraph 12). South Africa, as an importer, had not initiated the raising of the price. However, if it were the wish of the majority, his authorities could accept an increase in the minimum price to between $26 and $30 per 100 kg, but would prefer the new minimum price to remain unchanged for a fairly long period of time.

19. The representative of the United Kingdom said that it was obviously not in the interest of Japan and Spain, as importers, to increase the minimum price, but pointed out that, on the other hand, both countries had joined this Arrangement. At the time the original minimum price had been fixed, it was nearer the world market price than the price discussed at the present time. If those countries had felt under the conditions prevailing in 1969 that the minimum price then set was reasonable, they might agree to some upward adjustment in order to meet the new conditions prevailing in 1972. The Arrangement was about a minimum price to sell and not about a minimum price to buy. Japan and Spain could obtain derogations from the Arrangement. Taking into account the devaluation of the US dollar and the general inflation, a small increase in the minimum price would be justifiable. Moreover, an additional safeguard existed for Japan and Spain because the new minimum price would remain unchanged for a long period of time.

20. He considered that the Arrangement Concerning Certain Dairy Products ought to remain sensible and credible. If too much resistance were placed against the proposal of raising the minimum price to a level which was reasonable even for the importers, and the minimum price became too far removed from reality, the credibility of the Arrangement would be seriously endangered. A more stable world market for dairy products would be profitable both for producers and consumers and the Arrangement was a first step towards a stable world market in general. If the Arrangement fell into disrepute, it would be impossible to move on to anhydrous milk fat, butter and thus to a comprehensive agreement on dairy products.

21. The representatives of Denmark and the EEC supported the appeal made by the United Kingdom. The representatives of Japan and Spain stated that they would convey the appeal to their authorities.

22. The Committee noted that consensus had not been reached as to a modification of the minimum price under paragraph 3 of Article III of the Arrangement. It was therefore agreed that the question of a possible modification of the minimum price would be included in the Agenda of the next regular meeting. It was understood that, in the meantime, private consultations would be held among delegations with, if necessary, the help of the secretariat.
23. The Committee, having noted the request contained in document MCFP/W/19, agreed to grant Japan a derogation under paragraph 5 of Article VII from the provisions of paragraph 9 of Article III on the following conditions:

(a) the derogation applies to fiscal year 1972/73;

(b) the derogation applies to imports into Japan for the school lunch and welfare programmes;

(c) the derogation applies to imports of up to a maximum of 15,020 tons in the said fiscal year;

(d) Japan shall report to the Committee on the implementation of the programme and the import transactions affected thereunder.

24. In granting the derogation, the members of the Committee made a strong appeal to the delegations of Japan and Spain, to reconsider their position on the question of a modification of the minimum price.

Other business

25. The Committee agreed to hold the next regular meeting on 5 September 1972, subject to the usual confirmation.