Introduction

1. The Management Committee held its forty-second meeting on 27 June 1977.

Adoption of the agenda

2. The Committee adopted the following agenda:

   1. Adoption of the agenda
   2. Adoption of the minutes of the forty-first meeting (MCDP/43)
   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 forty-first meeting (MCDP/43)

3. The Committee adopted the minutes in document MCDP/43.

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

(a) General information

4. The Committee had before it a summary table (MCDP/W/61/Add.2) prepared by the secretariat giving quarterly figures and annual totals for the skimmed milk powder production, trade and stocks.
5. As regards the information given in table 2 on page 3 of document MCDP/W/61/Add.2, the representative of the EEC asked whether the figures supplied by New Zealand for their exports for the third and fourth quarters of 1976 were comparable with those supplied for the first and second quarters of the same year. He also asked the other members of the Committee to state whether the quarterly figures for their exports as supplied to the secretariat included or did not include their exports of skimmed milk powder for animal feed.

6. In reply to the representative of the EEC, the representative of New Zealand said that the figures for table 2, in page 3 of document MCDP/W/61/Add.2 were provisional official export statistics for skimmed milk powder intended for human consumption. On the other hand, exports of skimmed milk powder for animal feed purposes went under a different tariff item. Figures for skimmed milk powder exported for animal feed were provided by the New Zealand Dairy Board. These figures were recorded in document MCDP/W/58/Rev.10 showing the information communicated to the secretariat in pursuance of the Decision of 10 May 1976. Given the discrepancies between the provisional official export statistics for skimmed milk powder intended for human consumption and the New Zealand Dairy Board figures for skimmed milk powder exported for animal feed in terms of time and place of recording, it would not appear to be appropriate to add them together for the purposes of table 2 of document MCDP/W/61/Add.2. Consequently, New Zealand figures in that table showed annual exports of skimmed milk powder for human consumption only.

7. The representative of the EEC suggested that the representative of New Zealand communicate to the secretariat the provisional figures supplied by the New Zealand Dairy Board of exports during 1976 of skimmed milk powder for animal feed.

8. The representative of New Zealand said that he hoped to furnish the information requested by the representative of the EEC at the next special meeting or to communicate it to the secretariat in advance of the next meeting for circulation.

9. The representative of the EEC noted that, apart from those for New Zealand, all the figures given in table 2 of document MCDP/W/61/Add.2 represented total exports of skimmed milk powder and he thanked the representative of New Zealand for undertaking to endeavour to produce comparable figures.

10. The representative of Spain supplied details of imports into Spain during the first quarter of 1977 and informed the Committee that figures for stocks, production and trade for the first quarter of 1977 would be communicated shortly.
(b) Information under the Decision of 10 May 1976

11. The Committee had before it a summary table (MCDP/W/58/Rev.10) drawn up by the secretariat and based on communications received in compliance with the Decision of 10 May.

12. The representative of Spain reminded the Committee that, at its previous meeting, the representative of the EEC had asked the Spanish delegation to inform the Committee regarding the denaturing operations carried out in the free port of Santander. He said that at 15 June 1977 there were 24,000 tons of skimmed milk powder in Santander of which 8,200 tons were denatured milk powder and 15,800 tons powder in an unaltered state. The denaturing plant in Santander could handle about 400 metric tons of powder per day. As against that, some 2,000 tons had been lost as a result of a fire in the port.

13. The representative of the EEC said that the Community was having some difficulty in exporting skimmed milk powder for animal feed. He wondered whether the other members were experiencing the same difficulty in that field as the Community.

14. The representative of New Zealand recalled that his country had not been trying to sell skimmed milk powder for animal feed purposes at prices below the minimum price provided for in the Arrangement.

15. The representative of Canada pointed out that sales of skimmed milk powder for animal feed purposes were slowing down as shown in summary tables MCDP/W/58/Rev.9 and Rev.10.

16. The representative of the EEC said he wondered whether the other participants had no more powder available or whether they no longer found it necessary to sell powder at prices below the minimum set by the Arrangement, and preferred to sell their powder on the market for human consumption at higher prices than the minimum. In that case the Community would be the only participant to hold exportable stocks since, at 17 June 1977, EEC stocks amounted to 947,000 tons.

17. The representative of Canada replied that his country was holding 93,396 tons of stocks as at 1 June 1977. Present stocks were 40 per cent lower than stocks at the same period a year earlier but there were still downward pressures on prices and Canada would continue to sell skimmed milk powder for animal feed for some time to come.
Review of the market situation

18. The representative of Australia commented on his country's statistical data for the first quarter of 1977 which would be communicated soon to the secretariat. Stocks at the beginning of the quarter had amounted to 32,341 tons. Production and exports had reached 19,076 and 16,233 tons respectively. Stocks at the end of the quarter had amounted to 20,684 tons. Due to good seasonal conditions experienced in Australia, production of skimmed milk powder in the first six months of 1977 was somewhat higher than had been estimated. Nevertheless, it was expected that the remaining 1976/77 stocks would be shipped over the next six weeks. It was anticipated that stocks at the beginning of the 1977/78 season would be at minimal levels. Prices of skimmed milk in the period February to April 1977 had been in the range of US$375 to US$400 a metric ton f.o.b. Since April 1977 the market for skimmed milk powder seemed to have firmed. This was probably due to the decision of the EEC to hold export restitutions for skimmed milk powder at prevailing levels. Current prices of skimmed milk powder with some exceptions were in the range of US$415 to US$425 a metric ton f.o.b. It was expected that production of skimmed milk powder in Australia in the 1977/78 season would not exceed the production level of the previous season and would amount to some 110,000 metric tons. He noted that the internal disposal measures taken by the EEC had tended to stabilize the stocks held by the EEC. He pointed out that this would probably lead to a further strengthening of the international skimmed milk powder market for the remainder of 1977.

19. The representative of Canada said that Canadian stocks of skimmed milk powder at 1 June 1977 had amounted to 93,396 tons. He informed the Committee that the Canadian export prices of skimmed milk powder for animal feed purposes were in the order of US$280 per ton f.a.s. Current export prices of skimmed milk powder for human consumption were in the order of US$415 per ton f.a.s. Industrial milk production in Canada for the dairy year 1976/77 had declined by 12.4 per cent as compared for the previous dairy year. Skimmed milk powder production for the dairy year 1976/77 had reached 310.7 million pounds (approximately 141,000 tons) and declined by 29.3 per cent as compared for the 1975/76 dairy year. He recalled that skimmed milk powder production and stocks had been declining in Canada because of the severe supply management controls.

20. The representative of the EEC said that the Community could export skimmed milk powder for human consumption at a price around US$410 to US$415 per ton f.o.b. The export price of skimmed milk powder for animal feed was about US$300 to US$305 per ton f.o.b. There had been a noticeable slowing down in sales and the amount of the refund remained unchanged. The prices of competing vegetable proteins, particularly soya flour, had recently fallen while the prices of skimmed milk powder for animal feed had slightly increased. He wondered at what point the price of soya flour and the price of skimmed milk powder became competitive with each other.
21. The representative of New Zealand said that present stocks of skimmed milk powder held by his country amounted to 142,000 tons. Current prices of skimmed milk powder for human consumption were in the range of US$420 per metric ton f.o.b. The market for skimmed milk powder for human consumption was reasonably good at current price levels and New Zealand sales in the first quarter of 1977 were higher than the sales in the same quarter of 1976 and of 1975.

Other business

Proposal made by Australia at the thirty-sixth and thirty-ninth meetings (MCDP/38, paragraphs 21 to 28 and MCDP/41, paragraphs 45 to 52)

22. The representative of Australia recalled that at the two previous regular meetings of the Committee his delegation had raised the question of a possible modification in the level of the minimum price. He recalled also that in the view of his delegation, an increase in the minimum price was justified by a number of factors. Firstly, the current minimum price of US$35 per 100 kgs. f.o.b. agreed to in December 1973 had been in operation for four years and was becoming increasingly unrealistic. Secondly, when the price of skimmed milk powder in the international market had fallen in the spring of 1976 to the minimum price of the Arrangement, it had done little to stimulate the market. Thirdly, the average rates of inflation in twenty-four OECD countries had been respectively 13.4 per cent, 11.2 per cent and 8.1 per cent in the past three years. When these rates were applied to the minimum price of the Arrangement a figure of US$47.50 per 100 kgs. was derived. It was estimated that farmers' costs in Australia had increased by about 53 per cent over the past three years. When this rate of increase in the farmers' costs in Australia were applied to the minimum price of the Arrangement a figure of US$53.50 per 100 kgs. was derived. The representative of Australia invited other members of the Committee to express their views on this question.

23. The representative of New Zealand said that his delegation supported the views expressed by the representative of Australia. It was estimated that farmers' costs in New Zealand had increased by about the same rate as in Australia over the past three years. He recalled that New Zealand was ready to consider an increase in the minimum price, since the minimum price of US$350 per metric ton f.o.b. was not a realistic price and did not provide a
reasonable return to efficient producers. He expressed the view that the Committee at its next regular meeting should examine closely this question and should discuss what the amount of the increase should be rather than on the principle of an increase. He suggested that this item should formally be inscribed on the agenda of the next regular meeting of the Committee.

24. The representative of Canada recalled that the minimum price should be regarded as a floor price. The market for skimmed milk had firmed up in the recent months and current prices were US$6 to US$7 per 100 kgs. above the minimum price of US$35 per 100 kgs. However, an increase of the minimum price to US$50 per 100 kgs. would create a very large gap between prices of skimmed milk powder for animal feed purposes and skimmed milk powder for human consumption. Consequently, this gap would create a very serious problem of leakage of the powder from one market into the other. Furthermore, there were still substantial stocks held by the EEC, United States and Canada. Finally, oilseed prices and especially soya bean meal prices were declining and putting pressure on the market for skimmed milk powder intended for animal feed. For these reasons, it would be premature at this stage to increase the minimum price of the Arrangement. However, his delegation would not be opposed to a full examination of this issue as a separate agenda item at the next regular meeting of the Committee.

25. The representative of the EEC said that his delegation supported the views expressed by the representative of Canada. At the present price level, around US$4.15 per ton, there was a clearly discernible slackening in the demand for skimmed milk powder. The Decision of 10 May would remain in force until 10 November 1977 and would apply to exports made up to 10 November 1977 and in addition, provided they were carried out under contracts concluded during the period of validity of the Decision, to deliveries made during the six months following the expiry of the Decision. Deliveries could thus continue until 10 May 1978. He wondered to what extent this skimmed milk powder despatched under the Decision, and which would be in circulation until 10 May 1978, might prove an obstacle to an increase in the price of milk powder for human consumption. He noted that the greater the difference in price between skimmed milk powder for human consumption and skimmed milk powder for animal feed, the greater the risk of diversion. The Community was always interested in exporting skimmed milk powder at the highest possible price. However, seeing that the Decision of 10 May was still in force and bearing in mind the marked slackening of demand on the international market, it seemed premature at the present juncture to increase the minimum price established under the Arrangement. He hoped the situation would change in the coming three months so that his delegation might be in a position, when the question was discussed at the next ordinary meeting of the Committee, to accept an increase in the minimum price established under the Arrangement.
26. The representative of South Africa said that an increase in the minimum price would not be realistic at this stage.

27. The representative of Spain said that for the moment the market situation for skimmed milk powder should not encourage the Committee to modify the minimum price laid down under the Arrangement. The Committee should be realistic and consider whether there was any possibility of selling skimmed milk powder at higher prices. Some delegations had stated that the market in skimmed milk powder for human consumption had strengthened a little. On the other hand, current market prices for skimmed milk powder for animal feed were rather low. Consequently, skimmed milk powder dispatched under the provisions of Article III, paragraph 5, of the Arrangement ran the risk of being diverted from its declared end-use and assigned to human consumption. Moreover, several members of the Committee still held substantial stocks of skimmed milk powder. For those reasons, it would be wiser and more prudent to wait till September and then to examine at the next ordinary meeting of the Committee, the situation of the international market in skimmed milk powder. In the opinion of his delegation, the Committee should not, for the time being, modify the minimum price laid down under the Arrangement.

28. The representative of Japan said that since the last discussion by the Committee of this subject only three months had passed. In the view of his delegation, it was too early to examine the question of a possible modification of the minimum price at this stage. He added that Japanese production of skimmed milk powder in the current year had exceeded that of the preceding year. This was due to the increase in the fresh milk production. For this reason, Japanese stocks of skimmed milk powder had recently tended to increase.

29. The representative of New Zealand agreed with the representative of the EEC that it would be better to wait for another three months in order to examine the evolution of the supply/demand situation. He recalled that in the view of his delegation the Committee should at its next regular meeting consider the extent of the increase in the minimum price under the Arrangement and not whether or not that price should be increased. With regard to the suggestion made by the representative of Canada and some other representatives that an increase in the minimum price would increase the risk of diversion to human food use of powder shipped under derogation, he pointed out that it was the margin between the price of powder for animal feed and the market price, not the margin between the price of powder for animal feed and the minimum price, which created this risk. In this respect, the minimum price as such was neutral since the risk of diversion would be just as great if, for example, the market price of powder for human consumption were around US$500 to US$550 per metric ton and the minimum price had been raised to that level.
30. The Committee agreed to revert at its next regular meeting to the proposal made by the representative of Australia. It agreed also to inscribe on the agenda of its next regular meeting an item which would cover this particular question.

**Date of the next meeting**

31. The Committee agreed to hold its next special meeting on 27 July 1977, subject to confirmation by the secretariat.
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<th>Country</th>
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<td>Australia</td>
<td>Mr. R. Hall</td>
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<td>Belgium</td>
<td>Mr. H. Hooyberghs</td>
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<td>Canada</td>
<td>Mr. M. Hart</td>
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<td>Communautés Europeennes Commission</td>
<td>M. A. Barsuglia</td>
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<td>Germany, Federal Republic of</td>
<td>Mr. G. Schütz</td>
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<td>Japan</td>
<td>Mr. H. Ueno</td>
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<td>Netherlands</td>
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<td>New Zealand</td>
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