Arrangement Concerning Certain Dairy Products

MANAGEMENT COMMITTEE

Minutes of the Forty-Fifth Meeting,
held on 26 September 1977

Introduction

1. The Management Committee held its forty-fifth meeting on 26 September 1977.

Adoption of the agenda

2. The Committee adopted the following agenda:

   1. Adoption of the agenda
   2. Information required by the Committee under Article IV or other Articles of the Arrangement:
      General information
   3. Review of the market situation. Possible modification of the minimum price
   4. Other business

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

General information

3. The Committee had before it a summary table (MCDP/W/79) prepared by the secretariat giving quarterly figures and annual totals for the skimmed milk powder production, trade and stocks.

4. The representative of New Zealand, referring to the statistical information supplied by the EEC in document MCDP/STAT/91 noted that these figures did not include a breakdown of exports by destination. He asked whether the representative of the EEC could provide such information in the future.
5. The representative of the EEC said that it was impossible for him to provide details about destinations because it was not until nine months after the end of each year that "NIMEXE" published that information. Member States published national statistics showing the destination of exports, but all that the Commission received from member States was aggregate figures for their total exports to third countries.

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

6. The representative of Australia recalled that at the three 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 of the minimum price was justified by a number of factors which were recorded in the minutes of the previous regular meeting of the Committee (MCDP/44, paragraph 22). He recognized that the minimum price should be regarded as a floor price and that one should not conclude that the minimum price should go up automatically with market prices. For this reason, his delegation would not suggest at this stage that the minimum price should be raised to US$50 per 100 kgs. Nevertheless, he pointed out that the minimum price ought to reflect in some measure the state of the market and that there ought to be a sensible and reasonable relationship between the minimum price and the market price. His delegation believed that if action was not taken to increase the minimum price now, the Arrangement would cease to have any relevance to the international skimmed milk powder market. He recalled that the level of the minimum price had remained unchanged at US$35 per 100 kgs. since December 1973. Taking into account the rate of inflation and the rate of increase in the farmers' costs, the minimum price should be increased now to a level of at least US$40 per 100 kgs. The representative of Australia invited other members of the Committee to express their views on this proposal.

7. The representative of New Zealand said that his delegation supported the views expressed by the representative of Australia. He recalled that it had been the understanding of the Committee that the level of minimum price modified to US$35 per 100 kgs. on 11 December 1973 would remain in force for a reasonable period of time. He considered that a period of four years was a reasonable period of time. It was estimated that farmers' costs in New Zealand had increased by 45 per cent over the past four years. It was also estimated that processing costs had increased by 98 per cent in that period. He recalled that New Zealand was ready to consider an increase in the minimum price, since the minimum price of US$35 per 100 kgs. was no longer appropriate to production cost realities. Therefore the present minimum price was not a realistic price and did not provide a reasonable and tolerable return to efficient producers. A substantial increase in the price was justified for these reasons. However, since one needed to take into account the current situation in the skimmed milk powder market, his delegation was ready to agree to an increase in the minimum price to US$40 per 100 kgs.
8. The representative of Spain said that, for the time being, the current stock situation as well as the supply and demand position for skimmed milk powder should not encourage the Committee to change the minimum price established under the Arrangement. The current market price for skimmed milk powder for animal feed was fairly low, something like US$25 per 100 kgs. If the Committee decided to raise the minimum price for skimmed milk powder for human consumption to US$40 per 100 kgs, there was a risk that skimmed milk powder exported under the provisions of Article III, paragraph 5, of the Arrangement might be diverted from its declared end-use and sold for human consumption. He would have to ask for instructions from his Government before he could accept any change in the minimum price.

9. The representative of Japan said that the position of the Japanese Government had remained unchanged on the question of an increase in the minimum price. He pointed out that the market situation had not changed since last March and that some exporting countries were still holding important stocks of skimmed milk powder. The minimum price should be regarded as a floor price, aimed at preventing a precipitate fall of the market price below the fixed minimum at US$35 per 100 kgs. It had not prevented exporters from selling above the level of the minimum price. Therefore, the minimum price did not affect the price formation in the actual market and had no relation with production costs.

10. The representative of Canada said that his delegation was sympathetic towards the arguments raised by the representative of Australia with respect to the impact of inflation and increased costs of production. However, the Committee should keep in mind that the minimum price of the Arrangement was designed as a stop-loss mechanism in surplus market situations. Therefore, the supply/demand outlook had as much bearing on the appropriate minimum price level as other factors such as production costs. Current prices of skimmed milk powder, which were in the order of US$43 to US$45 per 100 kgs., seemed to be firming. Therefore, the Canadian delegation could support the proposal of the representative of Australia to increase the minimum price to US$40 per 100 kgs.

11. With regard to the suggestion made by the representative of Spain that an increase in the minimum price would increase the risk of diversion to human food use of powder shipped under derogation, the representative of New Zealand recalled the statement made by his delegation at the previous regular meeting and 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 risk of diversion would be just as great if, for example, the market price of powder for human consumption were around US$400 per metric ton and the minimum price had been raised to that level. The representative of New Zealand expressed the view that the continuation or cessation of the existence of stockfeed disposal sales under derogation did not necessarily have any bearing on the question of review of the minimum price of skimmed milk powder for human consumption. The processes and
control measures recorded in the Register for the purposes of paragraph 5 of Article III of the Arrangement were designed to keep separate the two markets for skimmed milk powder. His delegation believed that the continuation of the general derogation should not prejudice the interests of efficient producers in ensuring that the minimum price represented an adequate return to them. He noted that in the present circumstances the efficient producers were no longer holding surplus stocks and the facility to effect sales of skimmed milk powder for animal feed purposes had been retained for the benefit of subsidized exporters only. He recalled that the Dairy Board's offer price was now US$450 per metric ton and noted that there were pressures on available supplies from New Zealand. Moreover, a strengthening of the market was noticeable. With regard to stock situation, he noted that substantial stocks were still held by the EEC and to a much lesser extent by Canada. Both the EEC and Canada supported their dairy productions in a way which was not the case in New Zealand or in Australia. He concluded by reiterating his support to the proposal made by the representative of Australia to increase the minimum price to US$40 per 100 kgs.

12. The representative of Switzerland said that his delegation had no hard and fast position with regard to the proposal to increase the minimum price. It should be noted, however, that neither the minimum nor the world market price covered the production cost of skimmed milk powder. As a consequence, part of the production cost had to be subsidized by the Confederation. In order to reduce to some slight extent the cost of production and relieve the budget of the Confederation of part of its burden, his delegation would be willing to agree to an increase in the minimum price. It was important, however, to bear in mind the supply and demand situation for skimmed milk powder. The current market situation did not permit any increase in the minimum price for the time being. Furthermore any increase in the minimum price at the present juncture would encourage diversion of exports. His delegation had accordingly decided not to request any increase in the minimum price for the moment. Should, however, the consensus of the Committee prove to be in favour of an increase in the minimum price, his delegation would not oppose it.

13. The representative of the EEC pointed out that the Committee had just extended the Decision of 10 May 1976 until 10 May 1978. He also pointed out that, without intervention, Community producers would not be assured of a fair return. If the Community had to sell on the world market in order to assure its producers of a fair return, it would have to export skimmed milk powder at a price something like US$140 per 100 kgs. The current skimmed milk price for human consumption was around US$40 per 100 kgs., and very few sales were made at that price. Moreover, when the Committee had decided to raise the minimum price from US$20 to US$25 per 100 kgs., the world market selling price was about US$45 to US$50 per 100 kgs. In addition when, following very lengthy discussions, the Committee had decided to raise the minimum price to its present level of US$35 per 100 kgs., the world
market price had reached a figure of US$100 per 100 kgs. In the light of those considerations, it would not be realistic to deal with that question at present because current conditions would not permit any increase in the minimum price.

14. The representative of South Africa pointed out that an increase in the minimum price at this stage could raise the expectations of producers who could interpret that increase as an indirect incentive to produce. On the other hand, he pointed out 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. For these reasons, an increase in the minimum price would not be realistic at this stage.

15. The representative of Australia considered that an increase in the minimum price from US$35 to US$40 per 100 kgs., would certainly not be seen by subsidized producers of certain countries holding huge stocks as an improvement in the market situation since these producers were facing costs around US$140 per 100 kgs. He wondered when and under what circumstances the Committee would be prepared to consider an increase in the minimum price.

16. The representative of New Zealand pointed out that one of the purposes of the Arrangement was to bring stability to the international market of skimmed milk powder and to ensure that supply could be maintained at a minimum level. He reiterated the view according to which an increase in the minimum price to US$40 per 100 kgs. would certainly not increase the risk of diversion to human food use of powder shipped under derogation. He wondered when and under what circumstances an increase in the minimum price could be reached.

17. 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 would be included in the agenda of the next regular meeting.

Date of the next meeting

18. The Committee agreed to hold its next special meeting on 28 October 1977, subject to confirmation by the secretariat.
ANNEX/ANNEXE

List of Representatives/Liste des représentants

Acting Chairman:  Mr. J.-M. Lucq
Président par intérim:  Mr. J.-M. Lucq

AUSTRALIA  Mr. R. Hall
            Mr. R.E. Mocre
BELGIUM  Mr. H. Hooyberghs
CANADA  Mr. M. Gifford
          Mr. M. Hart
COMMUNAUTES EUROPEENNES COMMISSION  M. A. Barsuglia
                                      M. J. Elles
FRANCE  M. M. Leflon
         Mme A. Marsall
GERMANY, FEDERAL REPUBLIC OF  Mr. E. Mâgele
ITALY  Mr. G. Giorgieri
JAPAN  Mr. H. Ueno
NETHERLANDS  Mr. M. Hoogesteger
NEW ZEALAND  Mr. A.H. McPhail
SOUTH AFRICA  Mr. N. Saulez
              Mr. D.J. Bezuidenhout
SPAIN  Mr. A. Iranzo
        Mr. M.A. Diaz-Mier
SUISSE  M. J.D. Gerber
UNITED KINGDOM  Mr. R. Lawson

OBSERVERS/ OBSERVATEURS

AUSTRIA  Mr. V. Segalla
UNITED STATES  Mr. E. Koenig