Introduction

1. The Management Committee held its forty-eighth meeting on 19 December 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-seventh meeting (MCDP/49).

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

   (a) General information.
   
   (b) Information under the Decision of 10 May 1976.

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

5. Other business.

Adoption of the minutes of the forty-seventh meeting (MCDP/49)

3. The representative of Canada requested the following amendment to the minutes contained in document MCDP/49, in paragraph 13, tenth line, delete the figure "1977" and replace it by "1976". (English text only.) The Committee agreed to the change requested and adopted the minutes in document MCDP/49 as amended.
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/79/Add.1) prepared by the secretariat and reproducing the quarterly data and annual totals on production, trade and stocks of skimmed milk powder.

5. The representative of the EEC, referring to the statistics furnished by Canada and the United States and reproduced in documents MCDP/STAT/38/Add.1 and MCDP/STAT/86/Add.2 respectively, observed that closing stocks at the end of a given quarter did not always tally with the opening stocks at the beginning of the following quarter and that there were small discrepancies between these figures, which should have been identical.

6. The representative of Canada replied that he would make enquiries on the matter of discrepancies existing in the statistical data furnished by his country and inform the Committee at its next meeting. The representative of Canada recalled that at the meeting held on 24 March 1977, participants agreed to file with the secretariat copies of Spanish customs clearance certificates arising out of shipments to Spain of skimmed milk powder for animal feed purposes under the terms of the Spanish derogation. He informed the Committee that customs clearance certificates for shipments effected in the period after 24 March 1977 had been filed with the secretariat on 16 December 1977. He added that although there was no obligation on participants to file customs clearance certificates for shipments effected before 24 March 1977, his authorities had been able to obtain such certificates for the period prior to this date and as a gesture of good faith had agreed to file copies of these with the secretariat. These copies had also been filed on 16 December 1977.

(b) Information under the Decision of 10 May 1976

7. The Committee had before it a summary table (MCDP/W/58/Rev.15) prepared by the secretariat and based on communications received in pursuance of the Decision of 10 May 1976.

8. Referring to the summary table MCDP/W/58/Rev.15 and to the previous revisions of this table, the representative of New Zealand pointed out that sales of skimmed milk powder for animal feed purposes were slowing down and that almost no new contracts under the Decision had been entered into since October 1977.
9. The representative of Canada informed the Committee that his country had concluded in November 1977 with Taiwan, Thailand and the Philippines five contracts for the sale of about 1,000 tons of skimmed milk powder intended for use as feed. Detailed information on these contracts had been communicated to the secretariat on 16 December 1977. However, his country was not making great efforts to sell animal grade skimmed milk powder at this time.

10. The representative of the EEC informed the Committee that the Community had concluded a new contract with Japan for the sale of 14,000 tons of skimmed milk powder intended for animal feed. Deliveries in pursuance of this contract would be made before June 1978. Detailed information on this sale would be submitted to the secretariat in the very near future.

11. The representative of Spain recalled that, at the last meeting of the Committee, he had mentioned the existence in his country of a proposed modification of the denaturing methods for skimmed milk powder intended for animal feed, for which a circular by the Ministry of Finance had been issued but had been cancelled after its publication. The representative of Spain informed the Committee that his delegation had transmitted to the secretariat a communication dated 14 December 1976 for circulation to all members of the Committee. This communication dealt with the changes which the Spanish authorities proposed to make to the control measures to be applied in the case of imports of skimmed milk powder intended for animal feed. After stating the reasons for which his authorities proposed to make these changes, he described the two new proposed denaturing methods. Under the new process, the denaturing of milk would be effected either by adding 1 per cent of blood flour and 1 per cent of fish flour, or 1 per cent of blood flour and 1 per cent of non-deodorized fish solubles. He suggested that, on the basis of the communication which would be circulated soon, the Committee should discuss at its next meeting the acceptability of the new processes for skimmed milk powder denaturing proposed by the Spanish authorities. He made it clear that the denaturing processes recorded in the register of processes and control measures (document L/3552/Add.4) would remain in force until the Committee approved the proposed new denaturing processes.

12. The representative of the EEC wondered whether, in view of the scarcity and price of blood flour in the market and the complexity of the denaturing process, the proposal which had just been made would not result in affecting import possibilities for skimmed milk powder in Spain. He also wondered whether it would not be more simple to tighten controls on the issuance of import licences.
13. The representative of Spain observed that the scarcity and the high price of blood flour in the Spanish market were only a consequence of its lack of utilization. As soon as the new compulsory processes requiring the use of such products were introduced, operators would surely be in a position to obtain blood flour supplies, the more so as manufacture of this product was fairly easy. He recalled that the Spanish authorities, after the issuance of an import declaration, were not in a position to control the use of the licence. The Spanish authorities in this respect could only record the use or non-use of a licence.

14. The Committee agreed to revert at its next meeting to the suggestions made by the representative of Spain in order to discuss them on the basis of the information supplied in the communication from Spain, which would be distributed as document MCDP/W/87.

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

15. The Committee had before it a document containing summary tables prepared by and up-dated by the secretariat for the information of delegations and relating to food aid in the form of skimmed milk powder (MCDP/W/65/Rev.5).

16. The Committee took note of the information contained in document MCDP/W/65/Rev.5.

17. The representative of New Zealand said that despite persistently high European stocks, the improvement in skimmed milk powder prices had continued largely due to the relatively tight supply position for fresh powder. Current prices were around US$1450 per metric ton f.o.b. and were somewhat higher for spot sales. The New Zealand Dairy Board was now effecting sales at prices above US$150 per metric ton f.o.b.

18. The representative of Canada said that total milk production in Canada for the period January to October 1977 had declined by 1.2 per cent as compared to the same period a year earlier. Industrial milk production for the period January to October 1977 had increased slightly by 0.2 per cent as compared to the same period of 1976. Butter production for the period January to October 1977 had declined by 3.5 per cent as compared to the same period a year earlier. Skimmed milk powder production for the period January to October had declined by 3.4 per cent as compared to the same period of 1976 and amounted to 316.5 million pounds (approximately 143,500 tons). Stocks of skimmed milk powder at 1 November 1977 amounted to 69,163 tons, a decline by 58.2 per cent as compared to 1 November 1976. Because stocks had now been brought down to more manageable levels, no major sales of skimmed milk powder for animal feed purposes were being effected by Canada. Prices for skimmed milk powder for human consumption were quoted between US$450 and US$460 per metric ton.
19. The representative of Australia recalled that at the meeting held on 26 September 1977 he had reported that it had been expected that exports of skimmed milk powder for human consumption would be effected soon at US$50 per ton f.o.b. In fact, the improvement in skimmed milk prices had continued and current prices were around US$460 per ton f.o.b. for spot sales. The Australian Dairy Corporation was currently considering an increase in this spot price to around US$475 per ton f.o.b.

20. The representatives of the EEC stated that the stocks held by the Community amounted to 1,003,165 tons as at 16 December 1977. Neither the amount of the refund nor the reduction granted under Regulation 2054/76 had been changed recently. However, as a result of the depreciation of the United States dollar, selling prices expressed in the United States currency had recently increased. Thus, Community operators could export skimmed milk powder intended for animal feed and powder intended for human consumption at around US$290 and US$450 respectively per ton on an f.o.b. basis.

21. The representative of Australia recalled that at the four 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 the level of the minimum price had remained unchanged at US$35 per 100 kgs. since December 1973. His delegation believed that the present minimum price was unrealistic and completely unrelated to what was regarded as a reasonable return to efficient producers. In proposing an increase in the minimum price, his delegation was not asking consumers to pay more for skimmed milk powder but was seeking a technical adjustment to this minimum price which had remained unchanged for four years. Taking into account the rate of inflation, the rate of increase in the farmers' costs and the changes in the exchange rates the minimum price should now be increased. He pointed out that there ought to be a sensible and reasonable relationship between the minimum price and the market price. In the view of his delegation, if the minimum price was not adjusted from time to time, the Arrangement was in danger of falling into disuse and of ceasing to have any realistic base at all. He noted that prices of skimmed milk powder for human consumption had improved throughout the current year and stocks had been brought down to more manageable levels. These developments reflected a real improvement in the market outlook for skimmed powder. He recalled that the average rates of inflation in twenty-four OECD countries had been respectively 13.6 per cent, 11.4 per cent and 8.6 per cent in 1974, 1975 and 1976. If these rates were applied to the minimum price of the Arrangement a figure of US$48 per 100 kgs. would be derived. It was estimated that farmers' costs in Australia had increased by about 59 per cent over the past three years. Applying the rate of increase in the farmers' costs in Australia to the minimum price of the Arrangement would result in a figure of US$56 per 100 kgs. Nevertheless, his delegation would not suggest at this stage that the minimum price should be raised to that level. He pointed out that the negotiations currently under way in the Sub-Group on Dairy
Products in the framework of the Multilateral Trade Negotiations and the existence of a general derogation for sales of skimmed milk powder for purposes of animal feed at prices below the minimum price, provided no argument against reviewing the minimum price. For all these reasons, the Management Committee of the Arrangement which is in operation should increase now the minimum price to the level of US$40 per 100 kgs.

22. The representative of New Zealand recalled that the proposal for an increase in the minimum price of skimmed milk powder had now been before the Committee for a year. Since the last increase in the minimum price agreed on December 1973, there had been a significant and substantial degree of price and cost inflation in all major producing countries. Therefore, the present minimum price no longer provided an adequate floor price for efficient producers. Since the previous discussion of this question in September 1977, market prices had continued to firm and were currently in excess of US$450 per metric ton. With the exception of the EEC, the stock position of exporters had tightened. As a consequence, some exporters were no longer seeking to export aged powder for animal feed purposes. In these circumstances, an increase in the minimum price to US$40 per 100 kgs. would represent the smallest move which could reasonably be taken and could be regarded as an indication of the seriousness with which the members of the Arrangement approached the need to provide a stable and secure basis for trade in skimmed milk powder. He pointed out that his delegation realized that negotiations currently under way in another forum were intended to the elaboration of a negotiated solution for the problems which influence international trade in dairy products. New Zealand was naturally participating fully in these negotiations and was confident that they would achieve the objectives it expected from them. However, the scope, the nature and the timing of the result of the negotiations in the framework of the Multilateral Trade Negotiations were not yet clear. His delegation believed that the fact that the negotiations were going on should not prejudice the proper functioning of existing Arrangements. He noted also that there were significant differences in the membership of this Arrangement and that of the Sub-Group on Dairy Products. Members of the Committee should not be influenced by activities in other fora. Since an increase in the minimum price was justified by a number of factors, the Committee should agree now to an increase in the minimum price to US$40 per 100 kgs.

23. 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 negotiations concerning a possible global arrangement on dairy products, including skimmed milk powder, were going on in the Sub-Group on Dairy Products. In the view of his delegation, it would not be realistic to negotiate a new minimum price of skimmed milk powder in the Management Committee at the present time.
24. The representative of Canada said that his delegation could, in principle, support the proposal of the representative of Australia to increase the minimum price to US$40 per 100 kgs. He considered that the current prices of skimmed milk powder appeared to be substantially higher than those practised a year earlier. Stocks of skimmed milk powder held by major producing countries appeared now to be considerably lower than they had been a year earlier. In the view of his delegation the minimum price of the Arrangement was designed as a stop-loss mechanism in surplus market situations. However, in order to be effective, the minimum price ought also bear some relationship to both the current supply/demand outlook and current market prices. 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.

25. Referring to the argument that the credibility of the Arrangement would be affected if the Committee did not change the minimum price now, the representative of the EEC recalled that, in 1973, when the minimum price had been US$25 per 100 kgs., market prices worked out around US$95 per 100 kgs. In the view of his delegation, the credibility of the Arrangement had not been affected. The minimum price should be regarded as a floor price which was intended to avoid major disasters. The disparity between current international market prices and the minimum price was only of the order of US$10 per 100 kgs. He further recalled that the recent increase in the market price was only due to the depreciation of the United States dollar. He invited the committee to consider the consequences of a possible upward appreciation of the dollar in the days to come. The representative of the EEC said that the position of the Community in respect of an increase in the minimum price had remained unchanged. The Community expected the MTN to achieve a harmonious balance between the various dairy products. It was only within the framework of such negotiations that the exact levels of minimum prices could be fixed in respect of each of the most homogeneous dairy products, while taking account of their inter-relationships.

26. The representative of Spain observed that, if there were serious reasons to change the minimum price, his delegation would approve the change. However, the Committee should take account of the purpose of the minimum price which was to avoid prices falling to levels involving considerable losses to producers in a situation of excess supply. On the other hand, the fact that negotiations are currently taking place in the Sub-Group "Dairy Products" and the present situation in respect of skimmed milk powder should not encourage the Committee to change at this stage the minimum price established under the Arrangement. He made it clear that the MTN should not be influenced by a decision by the Committee to change the minimum price now. He said in conclusion that, for the time being, the conditions necessary for the Committee to consider the need for an increase in the minimum price established under the agreement did not exist.
27. The representative of Switzerland, after recalling his statement reported in paragraph 12 of the minutes of the regular meeting of September 1977 (MC\#47), said that, in the view of his delegation, the current situation of the skimmed milk powder market did not allow for an increase in the minimum price at this time. However, his delegation was aware that a number of factors did militate in favour of such an increase. Therefore, if a consensus were reached within the Committee to raise the minimum price, the Swiss delegation would not oppose it.

28. The representative of New Zealand recalled that according to the provisions of Article III:3 of the Arrangement, the level of the minimum price could be modified by the Committee taking into account, on the one hand, the results of the application of the Arrangement, and, on the other hand, the evolution of the situation of the international market. He pointed out that if one considered the results of the application of the Arrangement, there were clear grounds for increasing the minimum price above the proposed level of US\$40 per 100 kgs. On the other hand, if one took into account the evolution of the situation of the international market, there were also clear grounds for increasing the minimum price since market prices of skimmed milk powder for human consumption were above US\$45 per 100 kgs. In addition, very few sales were now effected under the general derogation and the stocks were brought down to normal levels in most producing countries. While the EEC might hold extremely large stocks, New Zealand was confident that the attachment of the EEC to the principles of the Arrangement would ensure that these large stocks did not have serious consequences for the international market.

29. The representative of South Africa recalled that negotiations with a view to reaching a broader agreement covering all dairy products were taking place in the Sub-Group "Dairy Products". In the view of his delegation, the Committee should not, at this stage, take a decision which might hinder these negotiations. He further recalled that the Committee should take account of the competition which existed between skimmed milk powder and various protein substitutes. He noted that, for the time being, the situation of the skimmed milk powder market should not encourage the Committee to change the minimum price established under the Arrangement. In these circumstances, it would be wiser, for the time being, to leave the minimum price at its present level of US\$35 per 100 kgs.

30. The representative of Australia supported the views expressed by the representative of New Zealand concerning the relationship between the Multilateral Trade Negotiations and the provisions of Article III:3 of the Arrangement. In the view of his delegation, the Multilateral Trade Negotiations should in no way affect decisions which might be taken in relation to the Arrangement. The representative of Australia recalled that the Committee had discussed the question of a possible modification in the level of the minimum price for a year. He requested the secretariat to prepare for the next regular meeting a note which would draw together the arguments in favour and against a modification of the minimum price and which would set out the issues taken into account in fixing the original minimum price and its subsequent modifications.
31. The Committee noted that no consensus had been arrived at concerning a change in the minimum price under Article III:3 of the Arrangement. It was therefore agreed that the matter would be placed on the agenda of the next regular meeting. The Committee requested the secretariat to prepare a document on the market situation for the next regular meeting. In order to support any decision which the Committee might take, the document should quantify all the elements pertaining to the situation of the various skimmed milk powder markets and its relations with the minimum price originally fixed and the minimum prices as modified subsequently.

Other business

Decision concerning the communication from the Consultative Committee on Surplus Disposal

32. The Committee had before it a communication from the Consultative Sub-Committee on Surplus Disposal (CSD) circulated in document MCDP/W/83. The Committee also had before it a draft Decision concerning this communication, which had been distributed under the reference MCDP/W/85 and prepared by the secretariat in response to its request made at the meeting held on 21 November 1977. The Committee adopted the following Decision:

(a) As regards the scope of the transactions envisaged in the Arrangement, the Committee noted that the transactions referred to in paragraph 8 of Article III of the Arrangement goes somewhat beyond the scope of the transactions listed in the "List of Transactions" which were subject to the consultation and previous notification procedures within the CSD.

(b) The Committee was of the opinion that it was therefore not appropriate to interpret the second sentence of Article III:8 of the Arrangement as meaning that the members of the Committee should notify the CSD of all transactions made in pursuance of the said paragraph.

(c) The Committee noted further that not all signatories to the Arrangement were members of the CSD.

(d) As regards the suggestion made by some representatives in the CSD that the Management Committee should notify the CSD of those transactions involving "concessional" features, it was noted that the provisions of the Arrangement did not authorize the Management Committee to notify the CSD of such transactions. However, the Committee was of the opinion that no provision of the Arrangement prevented its signatories from bringing to the knowledge of the CSD any transactions involving "concessional" features.
(e) Lastly the Committee was of the opinion that, if any of its members were to communicate information concerning its own Arrangements in respect of the concessional supply of skimmed milk powder, the Committee might decide to communicate such data to the CSD for information.

(f) It was noted that fruitful relations existed between the Committee and the CSD and the wish was expressed that the Committee maintain and develop such relations with the CSD.

Date of the next meeting

33. The Committee decided to hold its next special meeting on 27 January 1973, 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

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<th>Country</th>
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<td>AUSTRALIA</td>
<td>Mr. R. Moore</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>DENMARK</td>
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<td>M. T. Saint Gyant</td>
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<td>GERMANY, FEDERAL REPUBLIC OF</td>
<td>Mr. E. Magele</td>
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<td>IRELAND</td>
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<td>Mr. J. Jimenez Rosado</td>
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<td>SUISSE</td>
<td>Mr. R. Beuret - M. J.-D. Gerber</td>
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<td>UNITED KINGDOM</td>
<td>Mr. G.R.T. Bicknell</td>
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**Observers/Observateurs**

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<td>AUSTRIA</td>
<td>Mr. V. Segalla</td>
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