Introduction

1. The Management Committee held its fifth meeting on 11 March 1971.

2. All members of the Committee were represented at the meeting. The observers were also represented.

Adoption of agenda

3. The Committee adopted the following agenda:

   1. Adoption of agenda.
   2. Adoption of the minutes of the fourth meeting (MCDP/5).
   4. Information required by the Committee under Article IV or other articles of the Arrangement (comments on MCDP/STAT/2-12, Addenda).
   5. Review of the market situation (MCDP/5 paragraphs 19-24, MCDP/W/7).
   6. Other business.

Adoption of minutes of the fourth meeting

4. Referring to paragraph 14 of MCDP/5, the representative of Austria said that following further investigation by his Government as to the real export price of skimmed milk powder during the third quarter of 1970 (erroneously reported as $42.7 in Table D of MCDP/STAT/11), it had been found that exports had taken place at an average price of $21.8 per 100 kgs., ex-factory or stock.

5. With reference to paragraph 16 of MCDP/5, the representative of Australia confirmed that the lowest export price for skimmed milk powder at US$16.5 per 100 kgs., mentioned in Table D of document MCDP/STAT/4/Add.1, was indeed a true reflection of pre-existing contracts, which were still being executed during the third and fourth quarters of 1970.
6. The Committee took note of these statements and adopted the minutes of the fourth meeting held on 11 December 1970 (MCDP/5).

### Status of contracts concluded before entry into force of the Arrangement

7. The representative of Australia stated that the remainder of 1,445 long tons of skimmed milk powder to be shipped since the last meeting of the Committee had been entirely worked out, and that Australia had, therefore, by now completed all contracts concluded before the entry into force of the Arrangement.

8. The representative of Ireland informed the Committee that the remaining contract of approximately 500 tons to Mexico had been shipped.

9. The representative of New Zealand stated that all contracts concluded before the coming into force of the Arrangement had been completed.

10. The Committee, therefore, noted that all contracts, agreed before the entry into force of the Arrangement, had been fully executed and that nothing remained to be delivered.

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

11. The representatives of Denmark, Canada, the European Economic Communities, New Zealand and South Africa, informed the Committee that information concerning the fourth quarter of 1970 would be supplied shortly.

12. The representative of New Zealand further added that New Zealand's stocks of skimmed milk powder amounted to 66,800 tons at the end of December 1970, which was considerably below the amount of 102,487 tons at the end of the fourth quarter of 1969.

13. Referring to the information supplied by the United States in document MCDP/STAT/12, the representative of the European Economic Communities enquired whether it would be possible for the United States Government to furnish more substantial statistical material as to the quantities exported to the various destinations, and the prices at which these shipments were made. He noted that part of the statistical material was available from other sources and wondered, therefore, if the United States could complete their information accordingly.

14. In reply, the representative of the United States recalled that United States' exports consisted mainly of non-commercial transactions. He took note, however, of the EEC's request and also of the reference made to the United States undertaking to supply information as set out in paragraph 14 of document MCDP/4.
15. In order to enable the Committee to have the most recent information from all participants and observers at its disposal at its discussions, the Committee agreed to schedule its quarterly meetings so as to take place some time after the ten-weeks period during which information on the preceding quarter should be furnished to the secretariat.

**Review of the market situation**

(a) Present market situation and prospects

16. The representative of the EEC stated that present stocks of skimmed milk powder totalled 60,000 tons only, compared to 360,000 tons at the end of 1969. These stocks were partially committed in order to accomplish obligations under the World Food Programme, and partially kept as a means of keeping the price level within the Community under control.

17. As to the prospects of future production in the EEC, there were no dependable forecasts available. Production would probably be influenced by the price policy to be followed during the next season. However, it was unlikely that production would show any considerable increase.

18. Recent exports, involving only small volumes, had been shipped at $33-$34 per 100 kgs. f.o.b. Furthermore, as a temporary measure, the export restitution for skimmed milk powder had been decreased on 9 March from $11 to $5 per 100 kgs. This implied that exports would now take place at $40 per 100 kgs. f.o.b., the internal market price being $45 per 100 kgs. This was a short-term measure, taken with a view to limiting exports temporarily and to prevent speculation.

19. The representative of Denmark informed the Committee that only small quantities had been exported, at prices averaging $31 per 100 kgs. f.o.b. in October to December 1970, with a minimum at $29 and a maximum at $35.5.

20. The representative of Canada stated that remaining stocks of skimmed milk powder were fully committed. It was expected that next season's production would not exceed the level of the previous period and might even be lower. It was furthermore anticipated that for the coming season 70,000 to 75,000 tons would be available for exports.

21. The representative of Australia indicated that present stocks were substantially lower than at the comparable period of 1970. Stocks were also fully committed and there was a tendency to firmer prices.

22. The representative of New Zealand said that because of drought, New Zealand's production had fallen considerably, but that this was considered as a temporary setback. There had been some problems with exports of industrial casein, which could not keep up with the prices obtained from exports of skimmed milk powder and there was therefore a possibility that some diversion might take place from industrial casein production into skimmed milk powder production but this remained to be seen. Prices of skim milk powder were likely to remain at current levels, at least to the end of the year.
(b) Discussion on the possible modification of the minimum price

23. The representative of Denmark pointed out that given the sustained and substantial rise of export prices for skimmed milk powder the Committee should now recognize the opportunity to review the minimum price. His Government fully agreed with the conclusions set out in the secretariat's paper on the world market situation of skimmed milk powder (MCDP/W/7) and was of the opinion that a decision should now be taken.

24. The representative of New Zealand also agreed with the conclusions arrived at in document MCDP/W/7. The minimum price should be maintained at a realistic level, i.e. in relation with the current market situation and the prospects, taking into account demand factors and the views of importers, in order to maintain the usefulness and the credibility of the Arrangement. Time had come to consider some increase. However, the Committee should keep well in mind the principle that the minimum price should be regarded as a floor price rather than as a market support price. In the light of these arguments New Zealand would envisage a new minimum price level at about $23-$25 or, more specifically, $24 per 100 kgs. f.o.b.

25. The representative of the EEC said that he could support most of the views expressed by the delegate of New Zealand. Recalling the price proposals made by the Community during the negotiations for the present Arrangement in December 1969, he suggested to raise the minimum price to $27-$28 per 100 kgs. This level would imply a price equilibrium which should be maintained as a minimum price for a longer period with a view to arriving at the price situation which existed some three years ago before the world market suffered from excess production. This would serve the objective aimed at during the negotiations by the EEC as well as Australia and New Zealand, i.e. to arrive at a price level which could be regarded as providing a reasonable return, and which would limit the use of export subsidies.

26. The representative of Denmark supported the proposal made by the EEC that the minimum price should be raised to $27-$28.

27. The representative of Canada stated that his Government was still somewhat reluctant to raise the minimum price at this time. Although Canada could also subscribe to the conclusions of working paper MCDP/W/7 it was concerned about the longer-term aspects of the market and the impact a higher price would have on consumer demand. Like other participants Canada thought it of paramount importance, when taking a decision in this field, to regard the minimum price as a floor price and not as a market support price. 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, any increase should be more modest than those suggested so far, so as to bring the price to $22 per 100 kgs. f.o.b.
28. The representative of South Africa pointed out that his Government would always support any measure to arrive at reasonable prices for agricultural products. South Africa had not yet a fixed opinion as to what constituted a reasonable minimum price for skimmed milk powder, but would certainly consider all proposals made in this field.

29. The representative of Ireland indicated that her Government would not anticipate any difficulty if the minimum price were to be raised to $22-$24 per 100 kgs. f.o.b.

30. The representative of Austria explained that Austrian stocks had nearly completely disappeared. Some exports would still be made under the World Food Programme but Austria had in fact changed from an exporting country into a net importing country. A modest increase in the minimum price might be acceptable to Austria.

31. The representative of Japan recalled that his Government had adhered to the Arrangement on the understanding that it was conceived with a view to restoring the disrupted market situation. However, in his view the Arrangement was not aimed at increasing the minimum price because of the sole argument that the market prices were rising. The only rôle of the Arrangement was to prevent the fall of skimmed milk powder market prices below a fixed minimum. On the other hand the provisions of the Arrangement did not forbid the exporters to sell above the minimum price if they could find outlets at higher prices. He was not in a position to take any decision at the moment but would convey the arguments for and against to his authorities.

32. The representative of Australia expressed agreement with the view that the minimum price should be regarded as a floor price and not as a market support price. He agreed with the conclusion drawn in the secretariat's working paper that the market price was likely to continue to move above the minimum price in the near future. However, in setting new minimum prices account must be taken of the long-term aspects and of consumer demand. In this connexion he expressed serious concern about the price levels proposed by the EEC and Denmark.

33. He recalled that at the time the Arrangement was negotiated provisions were made to include other products than skimmed milk powder. Although Australia had welcomed the fact that finally agreement could be reached on a minimum price arrangement for skimmed milk powder, it had also expressed concern about what could happen to the market situation of other related dairy products, especially of the reconstituted dairy products for which skimmed milk powder was used as a raw material and their competitive position vis-à-vis products made directly from whole milk, and thus not included in the Arrangement.

34. During the negotiations, his delegation had tried to include in the text of the Arrangement specific provisions to allow action to safeguard the competitive position of these reconstituted products when it was threatened by products not subject to the Arrangement (L/3295 of 16 December 1969). In fact such a situation
had already arisen for some reconstitution factories established in South-East Asia with Australian financial and technical support, even at the present minimum price level. Any increase in the minimum price of skimmed milk powder, used as a raw material for the reconstitution of condensed milk products, would worsen the situation of these factories, in particular vis-à-vis condensed milk products, imported in finished form from the EEC, unless some other compensatory measures could be taken in order to remedy this situation.

35. The representative of Australia considered that several solutions were possible:

(a) An increase in the selling price of canned milk products, exported to the areas serviced by the affected factories. This could be effected by a decrease in the restitution in the EEC for condensed milk products.

(b) In case of an increase of the minimum price a derogation could be granted to Australia in terms of paragraph 5 of Article VII, to sell below the minimum price to the reconstitution factories in order to safeguard their interests.

(c) Australia could enter a reservation to its acceptance of an increase in the minimum price.

(d) During the time lag between the discussions and the entry into force of a new minimum price Australia could conclude some large contracts with the factories concerned in order to safeguard their competitive position. These contracts would then be considered as "old contracts". This was not a solution which his authorities particularly favoured as it was not in the spirit of the Agreement and furthermore would commit the Australian producers to a fixed selling price in a possible situation of rising prices.

36. If some agreement along these lines could be reached Australia would be prepared to accept an increase in the minimum price to about $22-$24 per 100 kgs. f.o.b.

37. The representative of the EEC remarked that the EEC was not in a position to make any concessions in the field of condensed milk products in exchange for an increase in the minimum price of skimmed milk powder as modest as proposed by the Australian delegation.

38. The representative of New Zealand recognized that a practical problem existed for Australia and hoped that a way could be found to solve it, possibly by recourse to a derogation procedure. The ideal solution would be to extend the Arrangement to other products.
39. The representative of the United Kingdom stated that both the proposals to the increase in the minimum price and the Australian problems merited serious consideration with a view to finding a solution. An increase in the minimum price to $22-$24 per 100 kgs f.o.b. would be acceptable to the United Kingdom.

40. The Committee agreed to hold a special meeting on 30 March to deal further with this question. It was understood that in the meantime some delegations would enter into bilateral discussions as to the possibilities of finding a solution to the problems raised at the meeting.

Other business

Australian process of dyeing skimmed milk powder for animal feed purposes

41. The Committee took note of the corrected description of the Australian process of dyeing skimmed milk powder for animal feed purposes. The description of the Australian colouring process was added to the Register of Processes and Control Measures as document MCDP/2/Add.3.

Derestriction of the Register of Processes and Control Measures

42. The Committee recalled its decision to derestrict the Register of Processes and Control Measures in order to make it accessible to the trade (MCDP/3, paragraph 7). The Committee noted that participants and observers to the Arrangement could dispose of document MCDP/2 for this purpose.

Japanese system of safeguard measures

43. The Committee recalled that a derogation had been granted to Japan under paragraph 5 of Article VII from the provisions of paragraph 9 of Article III (document MCDP/1 paragraph 11) for the fiscal year 1970-71 and that it should therefore review this matter at an early occasion.

Information to be submitted by participants on food aid

44. It was noted that participants had undertaken in Article IV of the Arrangement Concerning Certain Dairy Products to notify the Committee in advance each year of the scale of their proposed contributions of dairy products as food aid and that accordingly such information should be submitted as soon as possible.

Next meeting

45. The Committee will meet again on 30 March 1971.