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International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS

Seventeenth Session

Report

Introduction

1. The Committee of the Protocol Regarding Certain Milk Powders held its seventeenth session on 26 and 27 March 1984.

Adoption of the agenda

2. The Committee adopted the following agenda:
1. Adoption of the report on the sixteenth session
  2. Information required by the Committee:
    - (a) Replies to Questionnaire 1;
    - (b) Summary tables;
    - (c) Other information.
  3. Review of the market situation for products covered by the Protocol
  4. Other business.

Adoption of the report on the sixteenth session

3. The Committee adopted the report on its sixteenth session. The report will be distributed as document DPC/P/26.

Information required by the Committee

(a) Replies to Questionnaire 1

4. The Committee reviewed the replies to Questionnaire 1 and requested members which had not yet communicated information for the fourth quarter of 1983 to do so without delay. In addition, it was pointed out that replies to Questionnaire 1 relating to the first quarter of 1984 should reach the secretariat not later than 15 June 1984.

(b) Summary tables

5. The Committee had before it a document containing revised summary tables (DPC/P/W/1/Rev.16) prepared in conformity with Rule 28 of the Rules

of Procedure and reproducing the information furnished in Tables A and B of Questionnaire 1 regarding skimmed milk powder and whole milk powder. The Committee took note of document DPC/P/W/1/Rev.16.

(c) Other information

6. No other information was requested.

Review of the market situation for products covered by the Protocol

Present situation and outlook

7. The representative of the United States said that as a result of steps taken to balance supply and demand, production of skimmed milk powder had decreased by 5 per cent in January 1984 as compared to January 1983. Uncommitted Commodity Credit Corporation stocks of skimmed milk powder were likely to decline sharply in 1984 but they would remain significant. It was expected that government stocks of skimmed milk powder would decline to 1,007 million lb. (approximately 456,800 tons) at the end of calendar year 1984 as compared to 1,346 million lb. (approximately 610,500 tons) at the beginning of the year. As of the week ending 16 March 1984, uncommitted stocks of skimmed milk powder had been at 1,365.7 million lb. (approximately 619,600 tons). It was estimated that distribution of skimmed milk powder under the special programme for the needy would increase significantly in fiscal year 1984 to reach some 84 million lb. (approximately 38,000 tons) as compared to 39 million lb. (approximately 17,700 tons) in fiscal year 1983 and to 11 million lb. (approximately 5,000 tons) in fiscal year 1982.

8. The representative of the United States furnished information on food aid shipments of dairy products under PL 480 and Section 416. A communication on the subject would be circulated as document DPC/W/28/Add.3. With regard to skimmed milk powder, he informed the Committee that for fiscal year 1984 the amount of 140,000 tons was projected under PL 480 as compared to 142,453 tons shipped in fiscal year 1983. Shipments under Section 416 were projected to reach 70,000 tons in fiscal year 1984 (of which 27,000 tons carry-over from fiscal year 1983) as compared to 43,470 tons shipped in fiscal year 1983.

9. The representative of the United States informed the Committee that agreements signed between the United States and Jamaica provided for the exchange of 1,000,000 tons of bauxite for agricultural commodities held by the Commodity Credit Corporation. He indicated that as a part of a barter arrangement discussed in the Protocol Committees and in the Council in 1982, the United States had sold to Jamaica in November 1983, 11,340 tons of skimmed milk powder at US\$740 per ton f.a.s. and 2,855 tons of butter oil at US\$1,780 per ton f.a.s. As a second part of that arrangement, 17,091 tons of skimmed milk powder and 4,355 tons of butter oil had been sold to Jamaica in the beginning of 1984. Prices had been the same as in November 1983. He indicated that to convert those prices from f.a.s. basis

to f.o.b. basis, US\$30 to US\$40 per ton should be added to the f.a.s. prices.

10. The representative of the United States pointed out that trade sources had reported that international trading in dairy products had been rather quiet in past weeks. In fact, only bids or tenders for skimmed milk powder and butter had been reported, while trading in whole milk powder and butter oil seemed to have come almost to a standstill. He informed the Committee that skimmed milk powder and butter prices reported during the past four weeks were as follows:

Skimmed milk powder (spray, less than 1.5 per cent fat content)

<u>Date</u>	<u>Origin and/or destination</u>	<u>Price (US\$ per ton)</u>
15.2.1984	Austria to Poland	710 f.o.b.
22.2.1984	Eastern European countries to Spain	700 free Spanish port
29.2.1984	Offer by Poland	710 f.o.b.
7.3.1984	Australia to Taiwan	780 c.i.f.
	Australia to Sri Lanka	820 c.i.f.
	Eastern European countries to Japan	750 c. & f.

Butter (82-84 per cent fat content)

<u>Date</u>	<u>Origin and/or destination</u>	<u>Price (US\$ per ton)</u>
22.2.1984	Argentina	1,500 free Rotterdam
7.3.1984	Argentina to Syria	1,500 c.i.f.
	Australia	1,250 f.o.b.
	Czechoslovakia	1,390 free local cold storage

He stated that he would appreciate any comments by the delegations on those or other prices in international trade.

11. The representative of the EEC said that in the matter of food aid the United States was pursuing a programme under which the donations were to be sold in the recipient country, proceeds from such sales being used to

purchase in the United States goods needed for the country's development. There was information indicating that deliveries of skimmed milk powder for that purpose had amounted to 225,000 tons in 1983, and seemed that such exports should total 250,000 to 270,000 tons in 1984. The discussions supposed to be held in the CSD to determine whether such operations did not replace commercial sales had not been satisfactory. His delegation had the impression that such donations competed directly with the commercial sales of other countries and thereby disturbed international trade in skimmed milk powder.

12. The representative of the United States replied that the Section 416 programme was strictly a donation programme to the needy; no product under the programme entered commercial channels. With regard to the PL 480 programme for development, he said that that programme had been in existence for many years and had not been extensively used. He noted that a sharp reduction in the use of the PL 480 programme was projected for 1984.

13. The representative of Switzerland estimated that production and consumption of skimmed milk powder in the first quarter of 1984 should amount to 8,300 and 7,500 tons respectively. Stocks at the end of March 1984 would be of the order of 5,500 tons, which was considered a high level. As to whole milk powder, production and consumption for the first quarter of 1984 should amount to 4,600 and 4,300 tons respectively.

14. The representative of Sweden indicated that production and domestic consumption of skimmed milk powder increased in 1983. In 1984, production was expected to remain at the 1983 level. Exports had risen in 1983, but in the fourth quarter of the year had fallen below the corresponding 1982 quarter. That decline had continued into the first months of 1984, the exports for January and February amounting to 1,700 tons.

15. The representative of Norway said that skimmed milk powder production had declined by 6 per cent in 1983 to 10,700 tons. Although Norway did not have a policy of exporting skimmed milk powder, it had had to do so in 1983, and some 500 tons had been exported at the beginning of 1984 in performance of contracts signed in 1983. On 1 January 1984, stocks amounted to 2,400 tons. Average export prices in 1983 had been US\$750 per ton f.o.b. They had tended to weaken at the beginning of 1984, however.

16. The representative of Finland estimated that production of skimmed milk powder for the first quarter of 1984 would amount to some 8,400 tons as against 12,800 tons for the corresponding 1983 period. Production for 1984 as a whole was expected to be lower than for 1983. Finland had had to export skimmed milk powder in 1983. Export prices during the fourth quarter of 1983 had not been high, ranging in the vicinity of US\$680 per ton f.o.b. Finnish exports of whole milk powder were destined almost exclusively for the USSR. Export prices in the fourth quarter of 1983 had been US\$1,100 per ton f.o.b. He recalled that at the December 1983 session of the Committee a representative had said that a tender by a South

American country had presumably been filled by Finland. Following inquiries made to verify that information, his delegation was in a position to say that Finland had not engaged in such a transaction. If it had taken place, his delegation wondered who the exporter had been.

17. The representative of South Africa indicated that stocks of skimmed milk powder at the end of December 1983 had amounted to 16,000 tons, which was less than at the end of September 1983. The stocks were nevertheless considered as high. It had been estimated that stocks would amount to 18,000-19,000 tons at the end of March 1984.

18. The representative of Poland said that production of skimmed milk powder in 1983 had amounted to 131,900 tons, an increase by 32 per cent over the 1982 level. Exports totalled 38,000 tons as compared to 11,000 tons in 1982. The average export price had been approximately US\$685 per ton f.o.b. As a result of the combined effect of increased domestic consumption and expanded exports, stocks of skimmed milk powder at the beginning of 1984, estimated at 13,900 tons, had been lower than at the beginning of the preceding year. As for whole milk powder, total output in 1983 had amounted to 48,300 tons, 12.5 per cent over the 1982 figure. There had been no imports of that product, while exports had been quite negligible; in fact, they had involved only one shipment of 5 tons, largely on an experimental basis, and so far without any follow-up transaction.

19. The representative of Poland pointed out that the representative of the United States had made reference to some prices allegedly used in Polish trade. He indicated that he was not able to respond immediately because his delegation had not been given the benefit of an advance notice that would permit his delegation to prepare a verified response.

20. The representative of the United States replied that his delegation had not given delegations advance notice on the subject because the price quotes from trade sources had just been received. He reiterated that according to trade sources an offer by Poland had been made on 29 February 1984 for skimmed milk powder at US\$710 per ton f.o.b.

21. The representative of New Zealand said that with regard to skimmed milk powder, variation in price levels according to supplier source had continued into the first quarter of 1984. New Zealand had priced around the US\$760 per ton f.o.b. level and Australian prices had been similar. Recently, due to currency fluctuations, EEC offer prices had dipped to between US\$700 and US\$730 per ton f.o.b. Sales of skimmed milk powder for stockfeed in Japan and in South East Asia had been at prices below those levels, but the GATT minimum price of US\$600 per ton f.o.b. had been maintained. With regard to whole milk powder, demand had been weak and New Zealand production in the current season would be about 10 per cent less than in the 1982/83 season. New Zealand had held at the prices of US\$1,050

per ton f.o.b. level in the face of competition at price levels around US\$1,000 per ton f.o.b. and in some cases below. Nevertheless, the GATT minimum price of US\$950 per ton f.o.b. had been maintained.

22. The representative of Japan said that in fiscal year 1983 prices of skimmed milk powder had been tight and the Livestock Industry Promotion Corporation had sold 13,000 tons of skimmed milk powder during June to November 1983. As a result, the surplus of stocks had almost disappeared. However, due to the bad weather in 1983, the consumption of milk for drinking had stagnated and as a consequence of the increase in production of milk products, stocks of skimmed milk powder in the private sector were increasing and its price was weak. Referring to a statement made at the previous session of the Committee with regard to offer prices by East European countries, he indicated that in October 1983 Japan had imported from Hungary, 503 tons of skimmed milk powder for animal feed purposes at the price of US\$761 per ton c.i.f. His delegation had no information indicating that the import price on an f.o.b. basis had been below the level of the minimum price applicable under the Protocol. He recalled that in conformity with the provisions of Article 3, paragraph 5 of the Protocol his country had inserted in the Register of Processes and Control Measures its processes and control measures. He noted that all imports of skimmed milk powder for animal feed purposes were submitted, regardless of the price, to those processes and control measures.

23. The representative of Japan, referring to his country's imports of skimmed milk powder, noted that between 1981 and 1983 imports from the EEC had declined substantially, amounting to 3,000 tons in 1983, or 3.7 per cent of total imports, as against 56,000 tons in 1981, or 67 per cent of total imports. Among the various factors influencing the imports, his delegation believed that it was prices which were responsible for that development. Thus, in 1983, average import prices of skimmed milk powder from the EEC and New Zealand, which had been US\$1,072 and US\$1,256 per ton c.i.f. respectively in 1981, had been US\$917 per ton c.i.f. in the case of the EEC and US\$836 per ton c.i.f. in the case of New Zealand.

24. The representative of Hungary indicated that production of skimmed milk powder had increased in 1983 while exports had declined. Consumption of skimmed milk powder for animal feed purposes had expanded in 1983 while human consumption had remained stable. He noted an apparent contradiction in connection with the statement of the representative of Japan, who had referred to imports of skimmed milk powder from Hungary. According to Hungarian statistics, the purchasers of that powder had been Switzerland and Austria. It appeared, however, that the product had actually been shipped to Japan. Export prices for skimmed milk powder had risen to US\$660 per ton f.o.b. in the fourth quarter of 1983 as against US\$610 per ton f.o.b. in the third quarter of that year.

25. The representative of Egypt made a general statement dealing with certain data for the year 1982/83. He explained that those data related only to the public sector, which was represented by a single company

engaged mainly in dairy-products processing. Production of pasteurized milk and natural milk had amounted to 116,854 tons. With regard to cheese, he said that the production of white cheese had amounted to 23,000 tons, of anhydrous cheese to 5,000 tons and of processed cheese to 6,840 tons. In 1982/83, the company had imported 118,112 tons of liquid milk, 17,000 tons of skimmed milk powder, 194 tons of whole milk powder, 10,619 tons of butter and butter oil and 1,650 tons of Cheddar cheese. In conclusion, he explained that those figures gave only a general idea of the Egyptian market since more than 60 per cent of liquid-milk production was accounted for by individuals in the private sector.

26. The representative of Bulgaria pointed out that his country neither imported nor exported milk powder, the production of which was destined exclusively for domestic consumption.

27. The representative of Austria said that in 1983 production of skimmed milk powder had risen to 39,900 tons as against 32,500 tons in 1981. Exports had declined from 19,900 tons in 1981 to 16,300 tons in 1983. Domestic consumption in 1983 amounted to 17,000 tons as against 21,300 tons in 1981. Stocks had shown an irregular trend: on 1 January 1984 they had amounted to 7,800 tons as against 6,700 tons on 1 January 1983 and 13,400 tons on 1 January 1981. As to whole milk powder, production had declined to 19,400 tons in 1983, compared to 24,100 tons in 1981. Exports had fallen significantly from 18,600 tons in 1981 to 14,300 tons in 1983. Stocks had remained stable.

28. The representative of the EEC asked the representative of Austria whether he could furnish information concerning the trend of skimmed milk powder prices on the international market in 1983 and 1984.

29. The representative of Austria replied that the prices had remained higher than the minimum price applicable under the Protocol.

30. The representative of Australia said that total production of skimmed milk powder and buttermilk powder for the first six months of 1983/84 had been well up (plus 27.6 per cent) on the corresponding period in the previous season. As a result of the anticipated increased butter production, the Australian Dairy Corporation's estimate for 1983/84 skimmed milk powder and buttermilk powder production of 125,000 tons represented an increase of 24.3 per cent on the 1982/83 level. Domestic sales of skimmed milk powder and buttermilk powder, which had been declining in recent years since the removal of a price concession on domestic sales of stockfood skimmed milk powder in 1980, were expected to stabilize at around 40,000 tons. Total 1983/84 export availability of skimmed milk powder and buttermilk powder was expected to be around 93,000 tons, given desirable closing stock levels. The international market for skimmed milk powder had continued to be highly price-competitive in response to increasing production and stocks in many countries. Prices had remained variable depending on the supplier and the market into which the product had been

offered. Some Eastern European countries were reported to continue to be quoting skimmed milk powder at low price levels around the US\$640 per ton f.o.b. mark, while due to the relative movement in the relationship of the United States dollar to the European currencies, EEC traders were reported to be able to quote as low as US\$690-720 per ton f.o.b. The current Australian export pool return at A\$810 per ton was pitched at a level such that in normal commercial circumstances it would result in a US\$ per ton f.o.b. price around the 760 level, as the representative of New Zealand had pointed out. With regard to whole milk powder, she said that production in the July-December period had been 17.6 per cent below the corresponding months of the 1982/83 season. Due to a decline in export orders as a result of reduced export demand and intense price competition, the Australian Dairy Corporation's 1983/84 production estimate had been further reduced to 42,000 tons. Export availability was expected to be around 30,500 tons. International market prices were reported to be currently in the range of US\$980-1,100 per ton f.o.b.

31. The representative of the EEC indicated that in 1983 production of skimmed milk powder had increased by 11.8 per cent over 1982. The increase was partly due to a strong expansion in milk deliveries, higher butter production and a reduced utilization of skimmed milk in the production of cheese, liquid dairy products and low-fat fresh dairy products. The increase was also due to a reduction in the output of whole milk powder owing to the fact that the EEC could no longer find export outlets for whole milk powder. In the Community, skimmed milk powder had been used mainly in the feed of calves and of pigs and poultry. Moreover, the use of skimmed milk for casein production had risen by 13 per cent in 1983. Since production of skimmed milk powder far exceeded demand at market prices, aid was granted for incorporating skimmed milk powder in compound animal feeds. In 1983, some 1,305,000 tons had been sold at prices reduced by 40 per cent for the manufacture of milk feeds for calves, and nearly 500,000 tons had been sold at reduced prices under the "pigs and poultry" programme. Exports had again dropped considerably in 1983 and the decline would probably continue in 1984. The market share of the EEC, which had been 60.7 per cent in 1979, had thereafter progressively shrunk to 59.3 per cent in 1980, 55.5 per cent in 1981, 42 per cent in 1982 and 26.9 per cent in 1983. His delegation considered those figures alarming. But the EEC believed it knew the reasons for those declines. It had pursued a policy of price stabilization and it was that policy which had caused it to lose ground. In 1981, New Zealand's export prices had been higher than those of the EEC. Subsequently, the situation had reversed itself and New Zealand's prices were now definitely lower than those of the EEC. Moreover, it was becoming increasingly evident that certain participants were trying to dispose of their surpluses by exports of milk powders for animal feed purposes at prices below the minimum price. If the EEC followed that example, the situation would become catastrophic. The policy of moderation followed by the EEC with regard to exports had resulted in the accumulation of considerable stocks but for almost a year, the EEC had made no change in the level of its export refunds. The marked increase in production, the relative stability of consumption and, what was most important, the steep

decline in exports had led to a swelling of publically held stocks, which had risen from 269,000 tons at the end of 1981, to 574,000 tons at the end of 1982 and to more than 900,000 tons at the end of 1983, in spite of the domestic disposal of nearly 500,000 tons under the "pigs and poultry" programme. The export price for skimmed milk powder now being charged by Community operators fell within the range of US\$741-756 per ton f.o.b. With regard to whole milk powder, he observed that Community production of that product responded to developments in the international market. That market, which had expanded by about 60 per cent between 1978 and 1980, had entered a phase of stagnation in 1981, and EEC exports had fallen sharply in 1982 and 1983. For that reason EEC production had declined in 1982 and 1983. The EEC's share of the world market had shrunk considerably in the last two years, and the share lost by the EEC had been taken over by other exporters. The price-discipline policy followed by the EEC had thus cost it very dearly. Whole milk powder export prices now being charged by EEC operators fell within the range of US\$1,042-US\$1,062 per ton f.o.b. His delegation was not saying that the EEC was going to change its export policy, but participants would have to reckon with the fact that the EEC would not continue to watch its share of the milk-powders market diminish without taking action. He appealed to participants to adopt a responsible attitude with regard to milk-powder exports.

32. The representative of New Zealand observed that the export prices for skimmed milk powder for human consumption being charged by New Zealand were almost the same as EEC prices. His delegation also wished to make it clear that New Zealand's recourse to the provisions of Article 3:5 of the Protocol (DPC/P/W/15) concerned sales of buttermilk powder and not skimmed milk powder. Such sales had no implications for the skimmed milk powder market, and New Zealand had not sold any skimmed milk powder at prices below the minimum price.

33. The representative of Australia requested clarification from the EEC representative of the EC Commission's intentions regarding export refunds for skimmed milk powder and butter, should its current recommendations on intervention pricing for the 1984/85 season be accepted.

34. The representative of the EEC said that the object of export refunds was to make up the difference between the Community's domestic prices and world market prices. The fixing of the amount of refunds therefore depended not on the intervention price alone but primarily on the trends of world market prices.

35. The representative of Austria said that according to a publication the offered prices for whole milk powder were US\$950 per ton in August 1983 and US\$910 per ton between September 1983 and January 1984. The publication did not mention the origin of the powder, but he thought that the representative of the EEC might have more detailed information concerning those offers.

36. The representative of the EEC replied that the Community had definitely not sold any whole milk powder at prices below the minimum

price. There had indeed been rumours to that effect, but the Community's services had checked and had determined that there was no basis to the rumours.

37. The observer for Canada informed the Committee that the Canadian Dairy Commission (CDC) had not been actively involved in world skimmed milk powder trade since October 1983. The CDC had effected two earlier sales of skimmed milk powder to Mexico and Peru for shipment of 38,000 tons from January to November 1984 at prices which were well above the minimum price. His delegation was concerned at the trend in skimmed milk powder prices, which seemed to be weakening.

Application of the provisions of Article 3:5 of the Protocol

38. The Committee had before it notifications communicated by Australia (DPC/P/W/14 and Add.1), New Zealand (DPC/P/W/15) and South Africa (DPC/P/W/16).

39. The representative of Australia recalled that on 3 January 1984 her delegation provided the secretariat advance notice, under Article 3, paragraph 5 of Part Two of the Protocol, of the intention of the Australian Dairy Corporation to dispose of 250 tons of skimmed milk powder under derogation. The amount sold constituted the defective part of a shipment of skimmed milk powder to the Japan School Health Association for use in the school lunch programme. The product had deteriorated and become lumpy due to perforations in the polythene liner. Arrangements had been made with a Japanese importer to place the 250 tons with a stockfeed manufacturer at a price of US\$650 per ton, ex warehouse in Japan. The Australian Dairy Corporation had been asked to ensure that the processing of the powder had been undertaken under customs control, and the derogation control measures approved for Japan, so that it could not be diverted for uses other than animal feed.

40. The representative of New Zealand recalled that on 24 February 1984 his country had given notice of its intention to export a limited quantity of buttermilk powder for animal feed purposes at prices below the minimum price. He wished to confirm that the sale of a total of 3,000 tons of buttermilk powder to Spain had been concluded since that date. His delegation acknowledged that the latter sale raised some difficulties with regard to the procedures applicable under Article 3:5 of the Protocol. He informed the Committee that as a consequence of the sale, New Zealand had been able to reduce its current stocks level from approximately 11,000 tons to 8,000 tons. His delegation wished to reiterate that that sale of buttermilk powder implied nothing in regard to New Zealand's policy on skimmed milk powder.

41. Speaking with reference to the notification communicated by South Africa (DPC/P/W/16), the representative of the EEC emphasized that under the provisions of Article 3:5 of the Protocol, participants wishing to make use of the provisions of paragraph 5 must give advance notice of their

intention to do so to the Committee. He pointed out that South Africa's notification was dated 19 March 1984 whereas the 400 tons of skimmed milk powder had been shipped to Japan during January 1984. Thus, the procedure followed by South Africa was not in conformity with the provisions of Article 3:5, of the Protocol. In view of the fact that derogations to make sales for animal feed purposes were being invoked since the beginning of the year with increasing frequency, it was necessary to ensure that the provisions concerning advance notification in the paragraph in question were very strictly observed.

42. The representative of South Africa said that he could only plead guilty on behalf of his delegation. He would certainly report back to his authorities the comments made by the representative of the EEC. He said that he wished to draw the attention of the Committee to paragraph 5 of his country's notification (DPC/P/W/16) and he noted that notification was also given of South Africa's intention to dispose of a further 120 tons of skimmed milk powder under the derogation provided in Article 3:5 of the Protocol. He added that this was a one-time sale and it was certainly unlikely that such a sale would occur again.

43. The representative of Poland informed the Committee that in the fourth quarter of 1983 a Polish exporter had sold a limited quantity of 300 tons of skimmed milk powder to Spain at the price of US\$600 per ton f.o.b. The sale had been effected at that price level because of the quality of the product and of the destination for animal feed purposes. That was the only shipment at that price reported by Polish exporters. Apparently, the exporter had misinterpreted the obligations under the Protocol as no proper derogation procedure had been sought although the shipment had been made on the assumption that the product would be subject to denaturation processes. He emphasized that the exporter concerned had been informed by his authorities of the obligations under the terms of the Protocol. He assured the Committee that the procedure provided by the Protocol would be strictly observed in the future.

44. The representative of Australia stressed that the provisions of Article 3:5 of the Protocol concerning advance notification must be very strictly observed.

45. Speaking with reference to the notification communicated by New Zealand (DPC/P/W/15), the representative of the EEC noted that New Zealand had given advance notification of its intention to make use of the derogation provided for by Article 3:5 of the Protocol. His delegation was concerned, however, by the fact that New Zealand had made use of the provision because its stocks had increased. His delegation feared that such an argument might lead to a permanent derogation for exports of powder for animal feed purposes at prices below the minimum price. Recourse to the derogation should be the exception. He further noted that New Zealand's notification stated that European suppliers had taken up the gap in the Spanish market vacated by New Zealand. He wanted to know who those European suppliers were and what prices they were charging on the Spanish market.

46. The representative of New Zealand said that his delegation wished to give the assurance that New Zealand's notification was not a request for a permanent derogation. His country would make a separate application each time it needed to sell powder under the provisions of Article 3:5 of the Protocol. He said that New Zealand produced 23,000 tons of buttermilk powder per annum. In recent years, about 17,000 tons of the production had been exported for human consumption. The remaining tonnages had been sold for animal feeding both domestically and for export, the major destination being Spain. However, his country's market in Spain had been eroded over the last few years mainly by sellers from Eastern Europe and not from the EEC. He emphasized that his delegation was not arguing that the competition was selling at prices below the minimum price. However, because of the increased competition a situation had arisen where New Zealand's production had been in excess of the market offtake. As a consequence, stocks of buttermilk powder had gradually built up. It was not possible to keep such old stocks much longer because the product could further deteriorate. The domestic market offered no solution to that stock problem, and no adequate alternative export markets to Spain existed. He reiterated that as a consequence of the sale to Spain, stocks were now at manageable levels.

47. The representative of the EEC expressed his delegation's concern over the fact that some participants were trying to dispose of their surplus stocks on the world market at any price. The EEC, which was pursuing a moderate export policy, had stocks of skimmed milk powder amounting to 1 million tons. Community stocks, too, could not be kept indefinitely without deterioration. He reiterated his appeal to participants to adopt a responsible attitude with regard to milk-powder exports.

48. The Chair drew the Committee's attention to the following problem. Article 3:5 of the Protocol provided that such skimmed milk powder or buttermilk powder must be subjected to processes and control measures to be approved by the Committee and must be recorded in a register established by it. The Register of Processes and Control Measures contained in Annex I c was an integral part of the Arrangement. During the negotiation of the Arrangement, several of the negotiating parties, including Canada and Spain, had obtained approval of their processes and control measures and had had them recorded in the Register. The text of the Arrangement had been published on 12 April 1979. The introductory paragraph of Annex I c of the Arrangement stated that "the following processes and control measures are approved for the participants listed below". However, the list included Canada and Spain, which had not accepted the Arrangement.

49. The representative of New Zealand pointed out that the denaturing processes which were in force in Spain were very rigorous. His authorities had confidence in the integrity of the Spanish processes and control measures and had been under the impression that those processes had been acceptable in terms of the Protocol. New Zealand had acted in good faith and did not know that there was a problem. He noted that the way in which

Annex I c of the Arrangement was constructed left the impression that processes and control measures in Canada and Spain were acceptable. His delegation needed more time to reflect before coming back with firmer recommendations. However, a couple of possible options could be examined in order to overcome the problem. Firstly, on the grounds that a participant's processes could, for the purposes of the Protocol, be carried out in a third country, e.g. Spain, even though that country was a non-participant, it could be accepted that the exporter could take advantage of that possibility so long as ownership of the powder did not pass to the importer until the denaturing process had been completed. Under that first option, the exporter would assume responsibility through continued ownership attested through his own documentation to assure that denaturing of the powder was completed in accordance with the approved processes. He added that a second option might consist of restructuring Annex I c by eliminating Spain and Canada and forming a separate list of approved importers and exporters limited to Spain and Canada, on the grounds that their processes had already been accepted as being satisfactory from a procedural viewpoint but unacceptable on the grounds of their non-participation. He emphasized that those possible options were personal thoughts and that his delegation needed more time to reflect on the question. However, he recommended for discussion particularly the second option, which was simpler than the first option.

50. The representative of the EEC said that in his delegation's view although the problem was of a legal nature, it had no practical implications. In accordance with the provisions of Article 3:5 of the Protocol, participants could make use of the derogation provided that they subjected the products exported or imported to processes and control measures to be applied in the country of export or destination so as to ensure that the skimmed milk powder or buttermilk powder thus exported or imported was used exclusively for animal feed. It followed that an exporting participant could make use of the provisions of the paragraph if it respected the control measures of the country of destination. In his delegation's opinion, the Committee could approve processes and control measures of a country not participating in the Arrangement. A problem would arise, however, if the country in question subsequently decided to alter control measures which had been approved by the Committee. With regard to Canada and Spain, his delegation hoped that those two countries would be sure to notify the Committee of any change in their processes and control measures. In short, his delegation saw no practical problem, and the processes and control measures of Canada and Spain could continue to appear in Annex I c.

51. The representative of Finland suggested that New Zealand should submit in writing the possible options it had just put forward so that delegations could study them in more detail.

52. The representative of South Africa suggested that the word "participants" could be replaced by the word "countries" in the introductory paragraph of Annex I c of the Arrangement. The list could then be left unchanged.

53. The representative of Japan said that his country, as an importer of dairy products, would not oppose any arrangement which would facilitate imports of milk powders for animal feed purposes at lower prices. However, with regard to the processes and control measures of Spain, some legal points should be clarified. He suggested that New Zealand might communicate in writing its proposal regarding possible options.

54. The representative of the EEC said that his delegation accepted the suggestion of the representative of South Africa. In his delegation's opinion, the word "participants" in the introductory sentence of Annex I c of the Arrangement should be replaced by the word "countries". He repeated that a legal problem would arise if Canada and Spain introduced changes in their processes and control measures.

55. The Chair asked the observers for Canada and Spain, first, whether their authorities could indicate if the processes and control measures of Canada and Spain appearing in Annex I c were currently in force and, secondly, whether their authorities could undertake to report to the Committee any change that might be made in those processes and control measures.

56. The observer for Canada said that he was not in a position to reply for the moment and that he would ask his authorities for advice.

57. The observer for Spain, referring to the question of notifying any changes in control measures, said that his delegation was not in a position to reply for the moment. In response to a question from the representative of the EEC, he indicated that his country's processes and control measures applied to all milk powders imported for animal feed purposes, including buttermilk powder.

58. The representative of New Zealand said that his delegation could accept the suggestion made by the representative of South Africa. Moreover, his delegation wished to withdraw its two suggestions and to recommend that the Committee examine the procedures necessary to give effect to the proposal made by the representative of South Africa. In that connection, legal advice might be sought from the Office of Legal Affairs of the secretariat.

59. The representative of Switzerland said that he could support the suggestion made by the representative of South Africa.

60. The representative of Austria thought that some time was needed for reflection and that the Committee could return to the question at its next session.

61. The spokesman for the Nordic countries indicated that the delegations of the Nordic countries also believed that time was needed for reflection and that the Committee could return to the question at its next session.

62. The representative of the United States suggested that rather than replacing the word "participants" by "countries" in the introductory paragraph of Annex I c of the Arrangement, a footnote could be applied to non-participants indicating that they were not participants to the Arrangement but that they had requested that their processes and control measures be included in the register and that they had agreed to notify the Committee of any modifications. He emphasized the importance of the advance notification procedure in terms of Article 3:5 of the Protocol, particularly if that procedure involved non-participants to the Arrangement.

63. The representative of New Zealand said that the amendment proposed by the representative of South Africa was necessary and the word "participants" should be replaced by "countries". The proposal of the United States might be considered in addition to the proposal of South Africa.

64. The representative of Switzerland pointed out that there was a weakness in the United States suggestion in that it could freeze the existing situation, whereas it would be desirable if Canada and Spain could some day accept the Arrangement.

65. The Committee took note of the notifications of Australia (DPC/P/W/14 and Add.1), of New Zealand (DPC/P/W/15) and of South Africa (DPC/P/W/16). It stressed the importance of strict observance of all the provisions of Article 3:5 of the Protocol and in particular those referring to advance notification. With regard to changes to be made in the Register of Processes and Control Measures, which included processes and control measures of two countries that were not participants in the Arrangement, the Committee noted that time was needed to think about ways of solving the problem. The legal aspects of the solutions suggested would be examined. In the light of the observations that had been made and after consulting delegations, the secretariat would draw up a proposal concerning the modifications to be made in the Register. The Committee decided to include the question in the agenda of its next session.

66. The Committee stressed that the market situation for dairy products remained serious. It was not very likely that world demand would increase significantly and it seemed obvious that in spite of the measures which had been taken or which were planned, available supplies would again exceed real demand in 1984. The Committee reaffirmed the importance of co-operation by all participants in international trade in those products and emphasized again that a responsible attitude on their part and a strict observance of provisions of the Arrangement were indispensable to prevent an aggravation of the market situation.

#### Other business

##### Communication from the Permanent Mission of Australia

67. On the basis of a communication from the Permanent Mission of Australia, which had been circulated under the threefold symbol DPC/P/W/17,

DPC/F/W/12 and DPC/C/W/17, the Committee approved Australia's interpretation of Article 2 of the Protocol, namely that Melbourne could be used as the reference point for exports of products coming from Tasmania.

Report to the Council

68. The Committee agreed that an oral report on the discussion at the present session would be made to the Council.

Date of the next session

69. In accordance with the preliminary calendar, the next sessions of the Committees would be held from 20 to 22 June 1984. It was decided that the Committees would hold their eighteenth sessions consecutively on 20 and 21 June 1984 and if necessary on 22 June 1984, subject to confirmation by the secretariat. The session of the Committee of the Protocol Regarding Milk Fat would be held on 20 June 1984, followed by the session of the Committee of the Protocol Regarding Certain Milk Powders and then by the session of the Committee of the Protocol Regarding Certain Cheeses.