

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

DPC/4

29 July 1981

Special Distribution

International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

FOURTH SESSION

Report

Chairman: H.E. Mr. T.C. O'Brien

1. The International Dairy Products Council held its fourth session on 2 April 1981.
2. In opening the session, the Chairman welcomed Romania which was being represented for the first time at a Council session in its new capacity as a participant.
3. The Council adopted the following agenda:
 - A. Election of the Chairman and the Vice-Chairman.
 - B. Admission of observers under Rules 11 and 14 of the Rules of Procedure.
 - C. Review of the functioning of the Arrangement, including its practical operation.
 - Report of the sessions of the Committees of the Protocols
 - Replies to questionnaires 4 and 5.
 - D. Evaluation of the situation in and outlook for the world market for dairy products.
 - E. Other business.
- A. Election of the Chairman and the Vice-Chairman
4. In accordance with Rule 2 of the Rules of Procedure, the Council re-elected H.E. Mr. T.C. O'Brien (New Zealand) as Chairman and Mr. A. Cruit (United States) as Vice-Chairman.
- B. Admission of observers under Rules 11 and 14 of the Rules of Procedure
5. In pursuance of Rule 11 of the Rules of Procedure and as at the sessions of June (DPC/2, paragraph 3) and September (DPC/3, paragraph 4), the Council invited representatives of Mexico and Panama to follow the discussions at the current session as observers.

6. In accordance with Rule 14 of the Rules of Procedure and the procedure agreed on at the September session (DPC/3, paragraph 5), the Council was informed of the requests made by OECD, UNCTAD, FAO and the Economic Commission for Europe and invited representatives of those organizations to follow the discussions at the current session as observers.

C. Review of the functioning of the Arrangement

7. In addition to reports of the sessions of the Committees of the Protocols and examination of replies to questionnaires 4 and 5, the agenda item included a discussion of the practical operation of the Arrangement so as to allow, as the Chairman pointed out, an exchange of views on the functioning of the Arrangement in its first year of operation. Comments were made on the status report prepared by the secretariat and clarifications and amendments to that report resulting from replies to questionnaires or the discussions in the Committees; those remarks are reported under item D of the agenda.

Report of the fourth and fifth sessions of the Committees of the Protocols

8. The Council had before it reports submitted by the Committee of the Protocol Regarding Certain Milk Powders, the Committee of the Protocol Regarding Milk Fat and the Committee of the Protocol Regarding Certain Cheeses on their fourth sessions, which had been circulated as documents DPC/P/4, DPC/F/4, and DPC/C/4 respectively. An oral report was made by the Chairman of the Committees of the Protocols on their fifth sessions, held consecutively on 31 March 1981.

9. In that report, it was stated that each of the Committees had designated Mrs. F. Hubert (secretariat) as Chairman and had agreed not to elect a Vice-Chairman at that session. The Committees had reviewed the replies to questionnaires and taken note of the summary tables prepared by the secretariat. The Committees had accepted, on a trial basis, the secretariat's proposal for replies to questionnaires 1 to 3 to be circulated in the original language only. In pursuance of Rule 23 of the Rules of Procedure stipulating that questionnaires could be revised in the light of the data provided the Committees had decided that it would be useful to have a meeting at expert level to examine the matter on the occasion of their June 1981 sessions.

10. The Committees had engaged in an exchange of information and views concerning the market situation of the products covered by each of the Protocols. Among the important features of the current market situation the Committee of the Protocol Regarding Certain Milk Powders had noted that total output of skimmed milk powder by the major participants seemed to have increased slightly in 1980. Trends had varied from one country to another in production and also international trade in milk powders which in general had

remained active in 1980. EEC exports of skimmed milk powder had declined somewhat in that year while New Zealand's deliveries had increased. A small increase in United States exports had been recorded despite a pronounced upswing in production. Exports by Australia and Canada had dropped back substantially. Japan had continued to cut back its imports of skimmed milk powder. Market firmness seemed attributable in particular to strong import demand from OPEC countries. With respect to skimmed milk powder consumption, varying trends had also been noted according to the participant concerned. The Committee had agreed to discuss at its next session the question of milk powder consumption; participants had been invited to prepare for an in-depth discussion on measures taken to promote consumption of skimmed milk powder, whether for human consumption or animal feed. The Committee had noted that United States stocks had increased considerably in the course of the year, while in 1980 there had been no great variation in the aggregate stocks of skimmed milk powder held by the other major participants. Whole milk powder production had increased appreciably in 1980 in most participants, particularly in the EEC and New Zealand. Trade in whole milk powder had continued to progress in 1980 with substantially increased exports by the EEC and New Zealand. The USSR and certain developing countries had stepped up their imports. At the end of 1980 international prices of skimmed milk powder and whole milk powder had been respectively in the vicinity of US\$1,050 to US\$1,100 per ton f.o.b. and US\$1,450 to US\$1,500 per ton f.o.b. Those prices seemed to have remained relatively stable in early 1981.

11. The Committee of the Protocol Regarding Milk Fat had noted that aggregate butter production by major participants seemed to have remained fairly stable in 1980 as against 1979, though with widely varying trends from one country to another. In parallel, total exports of butter by major participants had remained relatively stationary in 1980 with some differences according to the countries considered. EEC exports had progressed while New Zealand's sales had dropped back. The Committee had had an interesting exchange of views on butter consumption and decided to examine the question in depth at its next session, in particular measures taken by participants to promote consumption, its level, forecasts for future trends, and competition from other products. The Committee had noted that aggregate butter stocks held by the major participants had been considerably lower at the end of 1980 than at the beginning of the year, despite a substantial increase in United States stocks. In the EEC, total butter stocks had declined in the course of 1980 and were expected to remain at a relatively low level in the coming months. The Committee had noted that export prices, which had been fluctuating around US\$1,800 per ton f.o.b. at the end of 1980, had been in the region of US\$2,000 per ton f.o.b. in February 1981. Production and exports of anhydrous milk fat by the EEC and New Zealand had progressed strongly in 1980. EEC production and exports could rise still further in 1981. Prices of that product had firmed in the course of 1980, reaching a level in the vicinity of US\$2,000 to US\$2,300 per ton f.o.b. at the end of the year, and had risen

further to a level around US\$2,400 per ton f.o.b. by February 1981. Some exporters had sold those products at higher prices.

12. The Committee of the Protocol Regarding Certain Cheeses had noted a substantial production increase in several participating countries in 1980. The trend was likely to continue in 1981, in particular in the EEC and the United States. The Committee had also noted that international cheese trade had remained very active in 1980 and exports by the EEC and New Zealand had progressed appreciably. United States imports had dropped back in 1980 but were likely to recover in 1981. The Committee had decided to discuss cheese consumption in greater detail at its next session. That discussion might include an examination of consumption incentive measures taken by participants and an examination of cheese consumption broken down by varieties in the participating countries. The Committee had noted that at the end of 1980 the cheese stocks of many European countries had been no larger than at the beginning of the year. United States and Australian cheese stocks had increased in the course of 1980. International prices of Cheddar cheese had been around US\$1,500 to US\$1,600 per ton f.o.b. at the end of 1980 and seemed to have continued stable in early 1981. A slight upward trend in prices seemed possible.

13. The Council took note of those reports.

Replies to questionnaires 4 and 5

14. The Council took note of the data received in replies to questionnaires 4 and 5 and requested participants whose replies should have been received already to communicate them to the secretariat as soon as possible.

15. With respect to questionnaire 4, it was agreed that its presentation would be amended on a trial basis, as in the case of questionnaires 1 to 3; those documents would be circulated in the original language only with a translation of all footnotes at the end of the document; a reference document would indicate in the three working languages all titles and headings in the questionnaire. It was likewise agreed that the question of revising questionnaire 4 would be examined by the experts who were to meet in June on the occasion of the Committees' sessions.

16. Several participants announced that they would be communicating to the secretariat an updating of information furnished on domestic policies and trade measures in response to questionnaire 5. Having regard to the provisions of Article 3:3 of the Arrangement and Rule 23 of the Rules of Procedure, it was important that the inventory of those policies and measures be comprehensive and up to date.

Practical operation of the Arrangement

17. It was noted that the Arrangement had functioned satisfactorily in its first year of operation. While underlining the positive way in which the supply of information and exchanges of views had developed, the representative of New Zealand nevertheless pointed out that because of the market situation, more particularly for the products covered by the Protocols, the effectiveness of the Arrangement had not been put to the test.

18. It was considered appropriate that the question of revising the product questionnaires should be examined by a meeting of experts in June. The representative of New Zealand recalled that the furnishing of data in reply to the questionnaires was useful to all participants even though it might involve certain difficulties; it was important to include data on the destination of exports, even if the figures could only be communicated with some delay. The representative of Australia supported that view, noting that in certain cases only annual data might be available. Participants should also endeavour to furnish data on the value of their trade and on prices. Revision of the questionnaires should not result in any reduction of data; questionnaire 4 probably offered most possibilities for improvement; in cases where detailed data were not available, figures could be furnished in terms of milk equivalent (if need be, aggregate figures). The representative of the EEC noted that some of the products covered by questionnaire 4 were less important in international trade, and it might be difficult to obtain information on some of them.

19. With respect to the functioning of the Committees the representative of Switzerland said that since their sessions always took place in the same sequence, the discussions on cheese which came last might be curtailed. Given the varying interests of participants, he asked whether the three sessions could be held in a different order each time. The Council took note of that proposal.

20. The representative of the United States suggested that in the operation of Protocols it would be appropriate for general statements to be made at the beginning of the session on the three Protocols taken together. Questions concerning the various products could then be dealt with successively. The representative of New Zealand supported that proposal. The representative of Finland pointed out that such an approach had been followed in practice but not systematically; the proposal would facilitate presentation of the market situation and might usefully be noted. The representative of the European Economic Community while recognizing that a general opening statement on the dairy sector might be useful, observed that in-depth and detailed knowledge of each market could be acquired only through an exchange of views on the products covered by each Protocol in the Committees responsible for them. The Chairman noted the unanimous opinion that a general statement

should in no way preclude detailed discussions on individual products. On the other hand, the Committees' deliberations should in no way impinge on tasks entrusted to the Council. In the practical operation of the Protocols, the Committees could be guided by the United States proposal and the interpretations given in that connexion.

D. Evaluation of the situation in and outlook for the world market for dairy products

21. Opening the discussion on this agenda item, the Chairman recalled that a number of questions would have to be considered in that context such as dairy policies, food aid and products not covered by the Protocols. The Council had before it the two documents prepared by the secretariat, namely a status report on the world market for dairy products (document DPC/W/7) and a note on food-aid operations in dairy products (document DPC/W/8). The status report would be supplemented, and if necessary amended, by information resulting from the work of the Committees.

22. The representative of the EEC pointed out that under this item, the most important on the agenda, a detailed and full examination of dairy policies and prospects therefor was of fundamental importance, and would afford an opportunity to supplement and clarify data furnished in reply to questionnaire 5. It should represent not a critical appraisal but an in-depth examination that could even help to orient the decision-making process of governments or authorities.

23. The representative of the United States, recognizing that dairy policies were a central issue, indicated that the United States Administration would recommend very shortly to the Congress its new farm legislation including its dairy programme. He could not at that stage comment on this programme which was to be discussed, and possibly revised, in the Congress. It seemed however that the percentage of the parity price, which was the basis for the support price, would be reduced, following the present dairy situation in the United States characterized by high surpluses which were likely to continue to increase in the course of 1981. The representative of the United States noted that the Congress last week had passed legislation which waived the 1 April adjustment in the support price. Such an increase had previously been automatic. Nevertheless, other factors probably as important as the support price would play a rôle in the dairy situation, in particular the development of costs. In recent years, the favourable milk-feed price ratio had been one of the major reasons for increase in production. Another factor would be the development of meat prices as well as cattle and cow prices.

24. The representative of the EEC said that agreement had been reached on agricultural prices in the Council of Ministers for Agriculture, the basic concept of the common agricultural policy remaining unchanged. As from

Monday, 6 April, the target price for milk would be raised by 9 per cent, with a corresponding increase in intervention prices for skimmed milk powder, butter and Grana Padano and Parmigiano-Reggiano Italian cheeses, through which a minimum price was paid to producers. The co-responsibility levy instituted three years earlier had been raised to 2.5 per cent of the target price as from 6 April with certain exceptions for less-favoured regions (abatement of 0.5 per cent); it would not be applicable to the mountain regions, nor to certain regions of Italy and Greece. The special internal and external measures would continue to be applied. Inter alia, the same consumer subsidization would remain in operation for butter and school milk; adjustments would be made, in particular for school milk on the basis of the new target price. Further details would be communicated on the various measures taken. In addition, a total of 94,000 tons had been set for butter imports from New Zealand in 1981; a quota of 92,000 tons was planned for 1982.

25. The representative of New Zealand shared the view expressed as to the importance of dairy policies. It was difficult, nevertheless, to consider the matter in isolation from the market situation, given their strong inter-relationship. In general, one could conclude that the international dairy trade had developed in a rather positive way over the last year. The most striking factors were: the fact that, while the Communities' milk production had undergone some further increases through 1980, stocks had been reduced; Japan's policy of holding support prices for several years had in 1980 been reflected in a levelling of milk production; and the recent news that the United States Administration had chosen to check the series of automatic price increases to its producers. It was noted that many countries continued to show increases in cheese consumption; and, that a number had also reported increases in butter consumption. Along with these tendencies, prices for all milk products had risen, and they showed prospects for stability and perhaps some further slight increases during 1981. It would appear to be reason for some satisfaction but there was no room for complacency. The history of international dairy trade had shown marked fluctuations over very short periods of time and to overcome this instability was a key objective of the International Dairy Arrangement. The figure of 40 million tons in terms of milk equivalent indicated for exports of dairy products in the secretariat note seemed exaggerated and should probably be reduced to 30 million tons; in any case, however, it represented only a small percentage of milk production. The smallness of that percentage highlighted the importance of production and consumption policies, because even slight adjustment of those policies in the major producing and consuming countries had repercussions on the international dairy trade. He recalled the regions where demand had increased and underlined the consequences of any contraction in that demand which was somewhat uncertain. Furthermore, increased exports of butter and anhydrous milk fat by certain suppliers had corresponded to a downturn in sales by other exporters. Uncertainty as to

demand further enhanced the importance of the dairy policies of major producers. Among other reasons for concern, he noted the 9 per cent increase in the Community target price, whose impact on production could not yet be determined, decisions shortly to be taken in the United States, in particular regarding domestic welfare programmes, and developments in Japan since the change in the production trend that had been recorded in 1980. Lastly, account should be taken of the influence on the international dairy market of aggregate availabilities in the smaller producing countries.

26. The representative of Japan recalled that there had been a trend toward over-supply in the supply and demand situation for fresh milk and dairy products in his country. That trend had now halted but given the past increasing trend in livestock and livestock productivity, there was some possibility of a resumption in the coming years. Consumption of fresh milk for drinking had recently levelled off reflecting a high nutrition level and competition with other beverages, and no pronounced increase in that consumption was expected. Great efforts were being made to balance supply and demand. In March 1981, when fixing the guarantee price of fresh milk for processing for the period April 1981-March 1982, the Japanese Government had decided to maintain that price at the level for the four preceding fiscal years and had set the maximum quantity for deficiency payment by LIPC at the same level as in the 1979 and 1980 fiscal years.

27. The representative of the EEC noted that it was difficult to quantify the impact of higher prices on production, particularly in the medium and long term. He shared the view that milk production also depended on the milk-feed price ratio as well as on the situation in the bovine meat market. With reference to long-term agreements with other countries, in the past year or so the Community and its member States had received requests from a number of countries for the conclusion of pluri-annual delivery agreements on agricultural products. The Commission was currently studying a proposal and any developments would be communicated to the Council, in accordance with the Arrangement. At the current juncture, the study in hand did not exclude any agricultural products, and some dairy products might be included in the contracts. According to certain reports, the United States had concluded or was envisaging concluding agreements with certain countries in Latin America and other regions, in order to dispose of stocks currently held by the Commodity Credit Corporation; it was of great importance that such operations be carried through in the spirit of co-operation underlying the Arrangement.

28. The EEC representative made some remarks on the status report prepared by the secretariat and suggested certain amendments to it. In particular, EEC production of butter had declined by 2.7 per cent in 1980, while consumption of liquid skimmed milk had been up 3.3 per cent. Measures for domestic disposal of stocks were the same for butter; sales at reduced prices for the foodstuffs industry had increased. In addition, Community production

of milk had increased by 2.7 per cent in 1980, and a further rise of between 1 and 2 per cent was forecast for 1981. In addition to the factors mentioned as underlying firmer world prices for dairy products, account should be taken of the very substantial increase in demand on the world market. Among less important comments that had been communicated to the secretariat, he pointed out that with respect to fresh milk consumption it was incorrect to speak of consumer preference for UHT milk as against pasteurized milk; consumer choice depended on the deadline for consumption and often on availabilities and consumer tastes. Production of skimmed milk powder had dropped back by 2 per cent in the three first quarters of 1980 and by 0.5 per cent for the year as a whole. The reduction in export refunds for skimmed milk powder as from June 1979 had not been designed to discourage exports but had depended on price levels in the world market; exports had reached a high level in 1980. The reduction in skimmed milk powder utilized for food aid in the three first quarters of 1980 was attributable to the fact that requests had mainly been received in the last quarter of the year; deliveries had totalled 144,000 tons for the year as a whole. Lastly, the consumption subsidy on butter concerned not only Ireland, Denmark and Luxembourg but also the United Kingdom where Community subsidization was at the rate of 100 per cent. United Kingdom butter consumption had declined from 409,000 tons in 1979 to 360,000 tons in 1980; the relevant reasons were higher prices, lower purchasing power because of the recession, and in particular stability and even a reduction in the price of margarine.

29. The representative of New Zealand noted in connexion with the firming of international prices that in quantitative terms there seemed to have been no significant increase in demand, including demand for butter and anhydrous milk fat. Referring to earlier statements, he recalled that the stock situation caused market pressure and expressed his concern over the possibility of recourse to exports in order to relieve the situation in the United States and Japan. He also expressed concern as to the possible impact of EEC long-term contracts on international trade.

30. With respect to increased demand, the representative of the EEC pointed out that world exports of butter had been rising since 1979: by 20 per cent in that year and more than 20 per cent in 1980. There was thus a real increase in world market demand. Fats were also exported in the form of whole milk powder and cheese, for which products demand had risen substantially. Community exports in 1981 were expected to equal or even exceed their 1980 level. Long-term contracts on dairy products would probably affect only marginal quantities in relation to the total volume of Community exports.

31. The representative of Australia recalled that a statement had already been made on his country's dairy policy at the Committees' sessions. He expressed concern at the Japanese Government's announcement calling for the

imposition of voluntary restraints on imports of edible fats and also at the renewed pressure from the United States dairy industry to bring imports of casein under quota. He said he would welcome a clear statement that the United States Administration would continue to commit itself to the continuation of unrestricted access for casein.

32. The representative of the United States noted that the United States Administration had worked actively to see that the bill for imposing quotas on casein that had been before Congress was not enacted. As to giving assurances on a future action, he could not on behalf of the Administration take a position on a question that had not yet come up.

33. The representative of Finland said that despite the efforts made Finland's production was rising, currently at a rate of 5 per cent monthly. Measures had been taken or were envisaged to reduce that rate to 1 or 2 per cent. An income agreement had recently been concluded covering both wages and farm income. The price of milk had been raised by 5.2 per cent, while prices of practically all other agricultural products had been increased by a percentage which in some cases was well above 10 per cent. That was the case in particular for coarse grains, and repercussions on milk production seemed possible. The price supplement which was, in practical terms, a consumer subsidy had been slightly increased in the same context. Other measures had been explained in reply to questionnaire 5. The establishment of large dairy production units (more than twenty cows) was regulated by the State. That limitation to twenty head which was determined by the agricultural situation in Finland, was also considered as an effective means of controlling milk production. The marketing charges applied to farmers had been maintained. They were calculated on a basis of a fixed production ceiling, producers being held responsible for marketing costs in respect of any quantities over and above that ceiling. The idea of levying a higher marketing charge on large production units had been suggested. Compensation was paid to farmers who switched from milk production to certain other production lines. A proposal was being studied under which compensation would be paid to producers who cut down their milk production. The slaughter programme that had been in effect in 1980 for dairy cows suffering from mastitis had been extended. Those various measures should be reflected in a production slowdown toward the end of the year. Practically no change was expected in Finland's share in the international market.

34. The representative of Switzerland said that while there had been no fundamental changes in his country's dairy policy, a few adjustments were to be reported. The base price for milk had been increased by 3 centimes on 1 January, from 79 to 82 centimes per litre. That increase had been accompanied by higher prices for fresh milk, butter and cheese but no consequent reduction in disposals was expected. On the other hand, in order to limit production of marketed milk, it had been decided that as from 1 May a system

of individual quotas would be introduced for farms in mountain regions, similar to the system already applied for lowland farms. To the same end, the contributions paid to cow owners who did not market their milk had been increased.

35. The representative of Austria said there had been no change in his country's dairy policy since the introduction on 1 July 1978 of the quota system described in the Austrian reply to questionnaire 5; under that system, individual target quotas were allocated to milk producers on the basis of milk deliveries in the recent years and the trend in domestic demand. With respect to the current situation and outlook, the latest cattle census (December 1980) had shown a further decline in the number of dairy cows, a trend that could be observed from the beginning of the 1970's, to about 974,000 head or 0.2 per cent less than at the same date a year earlier. Milk deliveries in 1980 had totalled 2,237,000 tons, i.e. 2.9 per cent above the level for the preceding year, and might increase by about 1.2 per cent in 1981, to 2,264,000 tons. Sales of liquid milk had declined marginally in 1980 by about 0.4 per cent. Producer prices had been raised by 5.2 per cent on 1 March 1981.

36. The representative of Norway said that the increase in milk production in 1980 had been larger than forecast and had reached 5 per cent because of a very good growing season. At the same time, consumption had also risen: butter +7 per cent, cheeses +4.3 per cent, liquid milk +2.5 per cent. A very pronounced production increase, by more than 6 per cent, had been recorded in the first two months of 1981 and new measures had been introduced: one measure similar to that applied in Finland, i.e. bonuses (for a limited period) for slaughter of cows having calved after 1 January 1981, together with strengthening of the two-price system by increasing bonuses when there was no production increase. The Government and the farmers' organizations had made a joint statement that deliveries of milk in 1981 would in no case be the basis for quotas or other regulations in 1982 or later. A committee had been established to propose measures to be introduced from 1 January 1982; if the situation so required, a two-price system could be established as in Switzerland and Canada. Cheese exports were likely to be of the order of 20,000 tons in 1981, a normal level (they had totalled 18,000 tons in 1980). A slight increase in prices had been recorded in some major markets. Exports to Japan, which had reached 4,000 tons in 1980, were expected to drop back to 2,600 tons; 2,000 tons of cheese would probably be exported to Poland.

37. The representative of Hungary said there had been no change in his country's dairy policy. Production of fresh milk and dairy products had been increasing steadily in recent years but at a slow rate. While the size of the dairy herd had remained practically unchanged, its yield was tending to rise because of changes in its structure. The uptrend was likely to continue in the next few years. Production was primarily intended to meet domestic

demand. Hungary's cheese exports were encountering two problems: that of access to the United States market, and that resulting from the accession of Greece to the European Communities. Hungary's exports to Greece had reached 3,000 tons in 1980; for 1981 the Greek quota for imports of cheese from third countries had been set at 900 tons.

38. The representative of New Zealand said that the amount of milk available for manufacturing for export in 1980/81 was expected to be of the same order as in 1979/80; 1979/80 had been an exceptionally good season and produced a record quantity of milk. In 1980/81, the output of milk had been good until the end of January, then a dry summer had produced a downturn in supplies. Production in 1980/81 would probably be slightly lower than in the preceding season but that quantity would yield about the same amount of products for export as in the preceding season. There might be slight variations in the product mix.

39. The observer for Canada recalled that the Canadian reply to questionnaire 5 had noted the price increases which had taken place in January. It was expected that the target price for milk would be further increased by 2 1/2 per cent to approximately Can\$36.61 per hectolitre, which would result in adjustment to butter and skimmed milk powder support prices. Full details would be supplied in due course. The Canadian Government was currently reviewing its dairy policy, which had been established more than five years ago in open consultation with dairy farmers, processors, retailers and consumers. A number of issues were being dealt with such as a formula pricing, import policies, butterfat self-sufficiency, subsidies, quota values, inter-provincial movement of quota and participation in the policy formation process by other food industry representatives such as processors, retailers and consumers. Canadian Ministers were pleased to note the overwhelming support for the present dairy policy which had been expressed in meetings. Those discussions were not the end of the dairy policy review consultations and there were forthcoming studies which would also need to be considered. The Council would be informed of the results of the review process. The observer for Canada noted that Canada and Mexico had recently concluded an agreement concerning the sale of a number of agricultural commodities for the years 1981 and 1982 including dairy products. The agreement was to endeavour to ensure the availability of skimmed milk powder and evaporated milk; the prices for those products would be subject to subsequent discussion. In reply to a question regarding the establishment of an export promotion agency (Canagrex), the observer of Canada indicated that the Cabinet had taken a decision to create such an organization but the legislation required in Canada to implement that decision was not yet tabled in the Canadian Parliament. Canagrex would not replace but would complement other agencies already involved in marketing of Canadian agricultural products including the Canadian Dairy Commission.

40. The observer for OECD noted that according to information in the report prepared by OECD for the first two months of 1981, there seemed to have been no significant changes in the trends already recorded. In the United States and European Economic Community, production was continuing in surplus, in Japan it seemed to have levelled off and it was still rising in Finland; in most other European countries production seemed under control, particularly in Switzerland where it was declining from month to month, perhaps reflecting the effectiveness of a quota system providing for adequate penalties. The downward trend in Australian production had been strengthened by drought. The decline currently recorded in New Zealand was attributable in particular to very favourable conditions in the preceding year. In Spain, an important milk producer, production was being affected by drought in the preceding year after having increased substantially. With respect to cheese production, with the exception of the EEC where demand was strong and of the United States, conditions in the other countries were less clear and that fact should be borne in mind when considering the situation. Lastly, production of butter and skimmed milk powder had recovered in the EEC after a period of decline.

41. The observer for the Economic Commission for Europe said that preliminary information showed that milk production in Eastern Europe (excluding the USSR) had increased by about 1 to 2 per cent in 1980. The increases recorded in Czechoslovakia, the German Democratic Republic and Hungary were offset by declines reported by Poland, the largest producer of the region, Romania and probably Bulgaria. In the USSR, taking into account lower average yields per cow (about 4 per cent below the previous year's level), milk output in 1980 was estimated to have declined by about 3 per cent. During the first three months of 1981 both milk yield and milk production had also been 3 per cent down. At the beginning of 1981 cow numbers had declined in Bulgaria, the German Democratic Republic and Poland. In the latter country the decline had reached 4 per cent. Only Hungary and Romania had reported marginal increases. In the USSR the dairy herd had increased by 0.2 per cent reaching 43.4 million head. Butter output had increased at significant rates in certain countries during 1980 (i.e. in Czechoslovakia and in Hungary); it had declined slightly in Poland. In the USSR, butter production had declined by 4 per cent in 1980 and preliminary data for the first three months of 1981 showed a drop by 9 per cent.

42. The representative of Australia said that in regard to his country the forecast for production of UHT milk, fresh and cultured milk products was of an increase in the variety of products available on the market. That situation was expected to contribute to boost consumption of milk and dairy products. The Council should review at each session, as already in September, the question of UHT milk. There had been a significant increase in the productive capacity of the Australian industry in this regard, and these products were expected to make further inroads in the market, both as

substitutes and as supplements to products already available. There had also been a substantial increase during the 1970's in sales of ice-cream, milk-based confections, and cultured milk products such as yoghurt and sour cream. The pronounced increase in yoghurt sales was expected to continue.

43. The representative of the United States said that consumption of ice-cream had gone up. While whole milk consumption had declined, low-fat and skimmed milk consumption had increased significantly. There had been an increase in consumption of cream and mixtures and yoghurt. UHT milk was not significantly produced in the United States because of consumer preference.

44. The Chairman noted that the status report prepared by the secretariat included only limited information on consumption of milk and production and consumption of fresh products; such data should be furnished to the Council more regularly.

45. The representative of New Zealand, referring to food aid, suggested that the Council might usefully decide to consider in detail at a future session the question of food-aid policies and the relationship between food aid and commercial policy.

46. The representative of Australia indicated that the dairy food-aid programme currently proposed for 1980/81 was the following: 744 tons of skimmed milk powder, 350 tons of whole milk powder. The destinations were the following: for skimmed milk powder: Poland (446 tons), India (276 tons), Philippines (18 tons), Western Samoa (4 tons); for whole milk powder: Mauritius (300 tons) and Philippines (50 tons).

47. The representative of the EEC said that it would be desirable to keep food-aid programmes under review. The Community's operations had increased and were currently at an annual level of 150,000 tons of skimmed milk powder and 45,000 tons of butter oil (representing approximately 55,000 tons of butter). That aid policy had three main objectives: to relieve distress in emergency situations, improve the nutrition level of the recipient populations and contribute to the development of recipient countries. The food-aid programme was not tied to the level of production and the EEC intended to maintain its annual commitment. More deliveries were made at the c.i.f. level, sometimes f.o.b; they were often made free-at-destination. They were made on the basis of tenders and deliveries were staggered. The skimmed milk powder had previously come mainly from public stocks but currently to an increasing extent was being purchased in the market and then vitamin-enriched. The butter oil came mainly from public stocks and sometimes from the market; the latter trend was developing. Food-aid operations were carried out through international organizations or bilaterally. The World Food Programme was the main recipient organization: 30,000 tons of skimmed milk powder in 1981 as in 1980, and 6,000 tons of

butter oil in 1981 (5,000 in 1980). In addition, the following operations could be reported: UNRWA - skimmed milk powder, 1,550; butter oil, 3,900; UNHCR - skimmed milk powder, 3,600; butter oil, 1,500 as well as operations carried out through non-governmental organizations. In the context of bilateral operations the principal recipient countries were India (31,000 tons of skimmed milk powder and 12,700 tons of butter oil in 1981 as in 1980) and Egypt (7,000 tons of skimmed milk powder in 1980, 10,000 tons in 1981, and 2,800 tons of butter oil in each of those years). Food aid was also furnished directly by the member states of the Community. He requested some details regarding the packaging of milk powder as well as information as to the delivery stage for the various products. Furthermore, it was regrettable to have only a partial indication of donations actually received by recipient countries; the tables in the secretariat note were not complete.

48. The representative of the United States said that information regarding his country's operations would be communicated to the Council later.

49. The representative of Switzerland said that Swiss aid in the form of dairy products was relatively stable since it was determined by a credit established for several years. Two thousand, five hundred tons of whole milk powder had been delivered in 1979 and in 1980. The cheese supplied was probably processed cheese.

50. The representative of Finland said that final figures for the current year had not yet been fixed - 400 tons had already been delivered and 890 tons contracted. The total volume in 1981 was expected to be some 1,000 tons as in 1980. Those operations, which consisted of canned processed cheese, would probably tend to increase slightly.

51. The representative of Japan said that the volume of food aid had not yet been fixed for deliveries to Sri Lanka; for Tanzania, food-aid transactions comprised 600 tons of skimmed milk powder and 763 tons of whole milk powder; the products concerned were of New Zealand origin. In addition, the Japanese Government had decided to deliver 503 tons of whole milk powder (with a value of approximately ¥ 200 million) to Zaire, and 620 tons of skimmed milk powder to China as emergency food aid; the products concerned were of Japanese manufacture.

52. The Chairman said that the discussions had been of great interest, showing the importance of policies and of their perception in evaluating the situation. The discussions would afford a useful contribution to the status report which was already fairly widely read (3,400 copies had been distributed); the Council and the Committees would have to ensure that the information in the report was as comprehensive as possible.

53. The representative of New Zealand proposed, with a view to improving the status report and its usefulness not only for participants but also for other interested readers, that a graphic presentation might be included

showing the trend in market prices in relation with the major parameters. A detailed explanation was available of the calculations on which the models presented to participants had been based; certain anomalies in the curves were attributable to exchange rate fluctuations, and market prices were calculated on an f.o.b. basis.

54. The representative of the EEC said that the proposal was an interesting one because graphs gave an immediate picture of the situation and of the trend in prices. While he agreed in principle that such graphs could be established for all participants, it would nevertheless be appropriate to request the experts to establish, at their June meeting, a model including the various elements to be brought out.

55. The representative of Australia supported the idea of including such graphs and of asking the experts to establish models for the products covered by the Protocols.

E. Other business

56. The representative of New Zealand suggested a change in arrangements for sessions of the Council and the Committees when they met consecutively. The Council session might be in two parts: before the Committees' sessions the Council could review the general situation; the Committees would then meet to examine the various products, after which the Council session would resume. That procedure would not imply any change in the respective rôles of the Council and the Committees but might facilitate the discussions.

57. The representative of the United States expressed the view that the change was probably not necessary; the discussions in recent days had shown that there was no repetition in the debates held in the Council and the Committees. The representative of the EEC shared the doubts expressed as to the usefulness of a Council session in two phases.

Date of the next session

58. The Chairman proposed, in accordance with the preliminary programme adopted in December, that the Council's next session should be held on 24 and 25 September; the sessions of the Committees would take place earlier in the same week.

Other business

59. The Chairman said that, under his own responsibility, he would prepare a note on the Council's session reporting on the matters considered, and would have it circulated.