

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

DPC/8  
28 January 1983

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International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

SEVENTH SESSION

Report

Chairman: Mr. C.G. O'Hanlon

1. The International Dairy Products Council held its seventh session on 30 September 1982.
2. At the opening of the session, a special welcome was addressed to Poland which was being represented for the first time as a participant at a Council session.
3. The Council adopted the following agenda:
  - A. Admission of observers under Rules 11 and 14 of the Rules of Procedure.
  - B. Review of the functioning of the Arrangement, including its practical operation:
    - Reports on the sessions of the committees of the protocols;
    - Replies to questionnaires 4 and 5.
  - C. Evaluation of the situation in and outlook for the world market for dairy products.
  - D. Other business.
- A. Admission of observers under Rules 11 and 14 of the Rules of Procedure
4. In pursuance of Rule 11 of the Rules of Procedure and as at earlier sessions, the Council invited representatives of Mexico and Panama to follow the discussions at the current session as observers.
5. In accordance with Rule 14 of the Rules of Procedure and as at earlier sessions, 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.

B. Review of the functioning of the Arrangement, including its practical operation

6. The Chairman said that under this agenda item consideration would be given, in that order, to the reports on the sessions of the committees of the protocols, replies to questionnaires 4 and 5, and then the practical operation of the Arrangement.

Reports on the tenth and eleventh sessions of the committees of the protocols

7. The Council had before it reports by the Committee of the Protocol Regarding Certain Milk Powders, the Committee Regarding Milk Fat and the Committee of the Protocol Regarding Certain Cheeses on their tenth sessions, circulated as documents DPC/P/13, DPC/F/13 and DPC/C/13 respectively. An oral report was made by the Chairman of the committees on their eleventh sessions, held on 27, 28 and 30 September.

8. In that report it was noted that after examining replies to the questionnaires and the summary tables, the committees had examined the market situation for the products covered by each of the protocols. The Committee of the Protocol Regarding Certain Milk Powders had noted that output of skimmed milk powder had increased in 1981 and the trend seemed to have continued, even slightly more rapidly, in the first half of 1982. Output in 1982 was therefore likely to be up from the preceding year's level. International trade in skimmed milk powder, which in 1981 had been short of the preceding year's level, seemed to have continued to decline in the first six months of 1982, despite increased exports by certain countries. It was difficult to forecast the overall trend for 1982. If the current trend continued, however, exports in 1982 should be below the preceding year's level. It was also noted that imports of dairy products by developing countries could drop back in 1982. According to replies to the questionnaire, consumption of skimmed milk powder seemed to have declined in 1981 and to have remained virtually stationary in the first six months of 1982. The committee had taken note of information furnished on measures adopted to encourage that consumption. Because of increased production, declining exports and stagnation of consumption, there had been a very substantial increase in stocks. At 1 July 1982, aggregate stocks of skimmed milk powder in the EEC, North America and Oceania had been 50 per cent above their level one year earlier; that increase had continued in the third quarter of the year. United States stocks were continuing to develop; Community stocks had also increased. World stocks of skimmed milk powder at the end of 1982 were expected to be well above their level at the beginning of the year. International prices for skimmed milk powder, which had weakened in the first six months of 1982 and had been fluctuating between US\$1,000 and US\$1,060 per ton f.o.b. at the end of the second quarter, had been in the vicinity of US\$900-950 per ton f.o.b. toward the end of the third quarter. Some sales had been reported at

levels below those prices. With respect to whole milk powder, output had increased in 1981, and had dropped back in the first half of 1982. According to replies to the questionnaire, after having developed considerably in 1980, trade seemed to have remained relatively stationary in 1981 and to have declined overall in the first six months of 1982, with varying trends from one country to another. International prices of whole milk powder, which had been fluctuating between US\$1,400 and US\$1,450 per ton f.o.b. toward the end of the first half of 1982, were currently in the region of US\$1,370 to US\$1,400 per ton f.o.b. The price difference seemed essentially attributable to appreciation of the US dollar. The market for whole milk powder seemed to be remaining firm.

9. The Committee of the Protocol Regarding Certain Cheeses had noted that cheese production had continued to expand in 1981; the trend had continued in the first six months of 1982, though more slowly, and for the year as a whole output was expected to be above its level in 1981. International trade in cheeses, which had remained active overall in 1981, seemed to have slowed down in the first six months of 1982. For the year 1982 as a whole, trade could continue at its 1981 level, though some slackening was possible. Demand, in particular from certain developing countries, had remained firm in 1981, but those countries seemed to have reduced their purchases in 1982. World consumption of cheese had developed further in 1981, and the trend was expected to continue in 1982, though at a slower rate in certain countries. According to replies to the questionnaire, cheese stocks at 1 July 1982 had been larger overall than one year earlier. A further increase in stocks had been recorded in the United States, and the Committee had recalled the concern felt over that situation. International prices of Cheddar cheese, which had firmed in the course of 1981, seemed to have remained firm in the first six months of 1982 in the region of US\$1,750 per ton f.o.b. Prices were currently varying between US\$1,650 and US\$1,750. In evaluating current prices, account must be taken of the appreciation of the United States dollar.

10. The Committee of the Protocol Regarding Milk Fat had noted that, according to replies to the questionnaire, butter output had increased slightly in 1981 and the trend had continued in the first half of 1982. Total world output of butter had declined slightly in 1981, however, a trend that could be attributed to a production decline in the USSR. Depending on the production trend in that country, world output could show a slight increase in 1982. Butter exports by major participants had been larger in 1981 than in 1980 and seemed to have remained relatively stationary in the first six months of 1982, with varying trends according to the countries concerned. It was difficult to make any forecast regarding trade for 1982 as a whole, which would probably depend on import trends in the USSR and Eastern Europe. In addition, imports by the OPEC countries, which had continued to expand in 1981, could level off in 1982. World consumption of butter probably declined in 1981, despite an increase noted in certain countries. According to replies to the questionnaire, butter consumption had increased slightly in the first six months of 1982, due in particular to internal disposal measures. Aggregate butter stocks

in the EEC, North America and Oceania at 1 July 1982 had been above their level one year earlier. Those stocks had increased in all the regions mentioned, in particular the United States. World stocks of butter at the end of 1982 were therefore expected to be up from their level at the beginning of the year. International prices of butter, which had weakened in the first half of 1982, to between US\$2,150 and US\$2,200 per ton f.o.b. at the end of the first six months of the year, were currently in a fork between US\$2,125 and US\$2,250 per ton f.o.b., i.e. a level comparable to that recorded at the end of the first half of the year. With respect to anhydrous milk fat, output by the EEC and New Zealand, which had declined appreciably in 1981, had continued to drop back still more rapidly in the first six months of 1982. Exports by the EEC and New Zealand had declined sharply in 1981. According to replies to the questionnaire, exports by the EEC had declined in the first six months of 1982. International prices for anhydrous milk fat, which had weakened in the first six months of 1982 to a level fluctuating between US\$2,450 and US\$2,500 per ton toward the end of the first half of the year, had shown no noteworthy change thereafter and were currently in a fork between US\$2,410 and US\$2,475 per ton f.o.b. The committees had underlined the need for co-operation and a responsible attitude on the part of the participants for maintaining equilibrium in the international market for dairy products.

11. In accordance with Article 3:3 of each of the protocols, the committees had taken up the agenda item concerning review of the level of minimum price(s) for products covered by each of the protocols, regarding which proposals had been made by New Zealand and Australia. Since no consensus had been reached on modification of the minimum prices, they had remained unchanged.

12. Lastly, the committees had examined a proposal by New Zealand for the establishment of a group of experts to assess government programmes undertaken to expand domestic consumption of dairy products. The committees had considered that it would be indeed useful to study in greater detail the various measures taken to promote consumption. Some doubts had been expressed, however, as to the procedure. In particular, several delegations had indicated that they would not be in a position to arrange for the participation of experts. The committees decided that at a special meeting, to be held on the occasion of their December 1982 sessions, consideration would be given to a document prepared by the secretariat on the basis of information already furnished and to the question of information still needed for assessing programmes undertaken; interested delegations would be invited to furnish that information, on the basis of which the examination could be pursued.

13. The Council took note of the reports of the committees.

Replies to questionnaires 4 and 5

14. The Council took note of the data received in reply to questionnaires 4 and 5 and requested participants to communicate to the secretariat as soon as possible their replies under Rule 23 of the Rules of Procedure. The Chairman recalled that under Rule 29 of those Rules a full revision of the inventory containing replies to questionnaire 5 was to be made at the beginning of 1983. On that occasion, participants would be requested to verify whether the information contained in document DPC/INV/1 and addenda was complete and up to date.

15. The representative of Poland indicated that because of the economic reform currently in hand and the changes it implied for the dairy structure, the Polish reply to questionnaire 5 would be furnished only at the beginning of 1983.

Operation of the Arrangement

16. The Chairman recalled that at the end of 1983 the Arrangement would have been in force for three years, i.e. the period on the basis of which the Arrangement operates. At that juncture it would therefore be appropriate to review the functioning of the Arrangement during that first period of operation.

17. The representative of New Zealand said that the Arrangement had operated satisfactorily, and it was important that its operation remain dynamic. In that connection, for useful discussions, data as up to date and as comprehensive as possible must be available. In the context of discussions on domestic consumption expansion programmes the committees might have comments to make to the Council regarding additional information that would be useful. The quality of meetings could be improved by more streamlining which could also shorten their duration. At the end of the first period of operation of the Arrangement, it would be timely to recall its origins and objectives and consider whether the intentions of its authors had been respected. Recalling the terms of the Preamble and the objectives set forth in the Arrangement, the New Zealand representative said that while progress had been made overall, in particular as regards understanding the market and its problems and perhaps market expansion, no result had been achieved on liberalization. Although the international economic situation was making any move in that direction particularly difficult, the objective still remained to be pursued. Lastly, the provisions of the Arrangement regarding the Council's task in the event of market disequilibrium or the threat thereof had never yet been invoked; in that sense, the Council had not yet been fully tested. It was to be hoped that the forthcoming period would again spare it that challenge, but if the case arose all participants would have to face it with a shared will to guarantee implementation of that fundamental concept of the Arrangement.

18. The representative of Australia supported the views just expressed. In the opinion of his delegation, the results of the multilateral trade negotiations in respect of dairy products had been a landmark in that area; the bodies which had been established - the Council and the committees - had proved useful for discussions on dairy issues, exchanges of information, and reciprocal understanding of the aspirations and problems of participants. It was to be hoped that such co-operation would go beyond its present dimensions. The Arrangement contained not only useful provisions on information, but also others applicable in the event of difficulties. The latter had not yet been tested but if they were to be, the task would certainly be made easier by the spirit of understanding and co-operation which circumstances had allowed to develop during the Arrangement's first period of operation. With reference to the study of domestic consumption expansion measures, in which the Australian delegation hoped to participate actively, he recalled that it would not be enough simply to consider the "demand" aspect but that, in seeking solutions to problems in the dairy sector, special consideration should also be given to the "supply" aspect. Production control was a difficulty encountered by all countries and it would be of particular interest to examine what could be done in that area.

19. The representative of the European Economic Community expressed his satisfaction with the results of the Arrangement and the development of international co-operation which it had brought about, showing that through reciprocal understanding, problems could be solved with reciprocal benefits. Referring to the concern felt over surplus stocks in the United States and the Community, he recalled the Community's efforts to dispose of surpluses resulting from its dairy structure on its internal market, and noted that the Community could not be reproached with having caused any injury to international trade. With respect to uncertainty regarding the United States surplus disposal programme, he expressed confidence in the stated intentions of the United States administration, namely to dispose of surpluses on the domestic market and cause no injury to international trade. The international solidarity already mentioned would have to be to the forefront, because prices might well slump when such substantial surpluses were placed on the market. The EEC representative expressed the hope - one shared by all parties interested in the international dairy trade - that no decision would be taken by the United States administration without prior information and consultation so that everything possible could be done to safeguard the market.

20. The representative of the United States expressed his appreciation over the practical application of the Arrangement and the spirit of co-operation prevailing. He understood the concern felt regarding the current situation in the dairy market. The bodies created under the Arrangement afforded a forum for expressing such concerns and for seeking solutions, giving an impetus to work undertaken to that end both multilaterally and bilaterally. Noting the concern expressed by the EEC representative, he recalled that his own country's policy was not the only

subject of anxiety, and that other matters too, should be examined by the Council. He underlined the need to streamline the work of the bodies under the Arrangement, in particular for budgetary reasons, and to facilitate the presence of experts. A proposal could perhaps be drawn up on that question for consideration by the Council at its next session.

21. The representative of Norway, on behalf of the Nordic countries, recalled that because of the distance between those countries and the main markets, and the very small volume of their exports, an agreement on observance of minimum prices could cause problems. Despite that fact, the Nordic countries had agreed to participate in the Arrangement which had resulted from the multilateral trade negotiations as a contribution to greater transparency and stability in the dairy market. The Nordic countries intended to continue their contribution to proper functioning of the Arrangement.

22. The Chairman noted that from the statements just made, and despite problems inherent in the market itself, the functioning of the Arrangement seemed to be considered satisfactory. In particular, the fact that it had generated a climate conducive to discussion and, one would hope, solution of problems, was encouraging. Progress was nevertheless still possible, in particular as regards pursuing the objectives of the Arrangement. Referring to streamlining of the Arrangement's functioning, the Chairman invited delegations which had made the suggestions to present a proposal to the Council for examination at its next session. The Arrangement itself and its Rules of Procedure contained certain provisions in that regard. The changes envisaged might make an amendment necessary. He felt sure that in framing and implementing their dairy policies, all participants in the Arrangement would bear in mind their obligations and responsibilities.

23. The representative of the European Economic Community recalled the hope already expressed that Canada would accede to the Arrangement and that reciprocal efforts could lead to a solution of the problems involved.

24. The observer for Canada said that his authorities, too, regretted that situation. For his country, accession could imply the loss of Canada's competitive position in its major markets. Unless a derogation similar to that granted to other countries could be agreed on, it was unlikely that Canada could participate in the Arrangement.

25. The representative of the United States recalled the position of his authorities and noted that Canada's situation was different from that of the countries to which reference had been made.

26. The Council requested its Chairman to examine, with the interested parties, the question of Canada's participation in the Arrangement.

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

27. 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 two documents prepared by the secretariat - namely a status report on the world market for dairy products (document DPC/W/24) and a note on food aid operations relating to dairy products (document DPC/W/25).

Dairy policies

28. The representative of the United States underlined the keen concern felt by his authorities about the dairy situation and mounting surpluses in his country. Because of that concern, the administration had proposed legislation designed to bring milk production into balance with consumption. Legislation was enacted in August 1982, under which the price support would remain at \$13.10 per 100 lb. for manufacturing grade milk, with 3.67 per cent fat. This price was the minimum allowed under the dairy legislation. It was the same price support level that was put into effect 1 October 1980 and it would remain in effect until 30 September 1984. Effective 1 October 1984, the price of milk would be supported at the equivalent of the level of parity that \$13.10 represented as of 1 October 1983. For the first time Congress authorized the Secretary of Agriculture to implement a \$0.50 per 100 lb. deduction for all milk marketed. This deduction would begin 1 December 1982. Another \$0.50 per 100 lb. deduction had been authorized beginning 1 April 1983. This last deduction could be refunded to the dairy farmer should the producer demonstrate that he had reduced his milk production according to the guidelines set. It was expected that this new programme would result in lower milk output and it was anticipated that milk production in 1983 would be approximately the same as in 1982. The 1982 production was approximately 2 per cent above 1981. However, there was a caveat to this estimate, because of the low grain prices, excellent pasture conditions, low prices for dairy cattle, as well as the lack of other opportunities for dairy farmers. These factors might cause farmers to maintain their herds so that production at least in the first part of 1983 might increase slightly.

29. The representative of Hungary recalled that at earlier sessions and in other GATT bodies the question had already been raised of United States allocation of import quotas for cheese. In the most recent quota allocation, no account had been taken of Hungary despite his country's substantial interest in exporting cheese to the United States. According to his delegation's information a further allocation would take effect on 1 January 1983. The Hungarian delegation hoped that on that occasion the United States would be able to allocate to Hungary an equitable share of the quota, in accordance with Article XIII:2 of the General Agreement.

30. The representative of the United States said that he would convey Hungary's concern to his authorities. He noted, as he had already done, that the Hungarian delegation should also take up the matter bilaterally with the United States authorities.

31. The representative of Australia said that a new underwriting scheme had been established on 1 July 1981 for a two-year period, for manufactured dairy products covered by the domestic marketing arrangements. The aims and modalities of that system had been reported to the Council. The underwriting values for the 1982/83 season were (in US\$ per ton):  
butter - 1,775; certain cheeses - 1,512; skimmed milk powder - 840;  
casein - 2,069; whole milk powder - 1,104; no underwriting payments had been made by the Australian Government for the 1981/82 season, and judging by market forecasts, none were likely in the 1982/83 season.

32. The representative of Switzerland said that changes in the measures applied had been reported in reply to questionnaire 5. The guaranteed base price to producer for milk had been raised by 5 cents to 87 cents per litre; as a consequence, producer prices for butter and cheese and consumer prices for butter, cheese and milk powders had also been increased. The price supplements on imports of cheese, and of edible fats and oils had been raised; such increases in the price supplements were often but not automatically made when the producer price for milk was raised.

33. In reply to the question about agreements concluded in the dairy sector, the representative of the United States said that no deliveries of skimmed milk powder had been made in recent months under the agreement between his country and Mexico, probably because of the price fixed - 56 cents per lb. delivered to the border. The representative of New Zealand said that the arrangement concluded between the New Zealand Dairy Board and the Soviet importing corporation was not a contract but a framework agreement, on the basis of which sales were discussed. The USSR was an extremely important market for dairy products, albeit an uncertain one. Significant sales had been made in line with this framework agreement in the voluntary absence from the market of some other bodies but the quantities were now diminishing.

34. The following information was also communicated. In Norway, the farmers' organizations and the Government have agreed to introduce a two-price arrangement based on quotas for the individual producer from 1 January 1983. The price of milk delivered beyond the quota which the individual producer has been allocated will be 100 øre per litre. The average price to the producer was 214 øre per litre in 1981. A slaughtering premium has been established to reduce the number of milch cows in the long run. In Sweden, negotiations between delegations of farmers and consumers on price regulation for the period 1 July 1982 to 30 June 1984 were completed in May 1982. Special attention has been given to measures to limit production and encourage consumption; with effect from 1 July 1982, the delivery additions were abandoned for dairy producers aged sixty-five years or more.

Food aid

35. The representative of the United States said that the Omnibus Budget Reconciliation Act of 1982 provided that dairy products might be donated through foreign governments and public and non-profit private humanitarian organizations for the assistance of needy persons outside as well as within the United States. The CCC might pay reprocessing, packaging, transporting, handling and other charges including the cost of overseas delivery. Those donations were to be channelled through the PL 480 inter-agency mechanism to ensure that donations were co-ordinated with and complemented other foreign assistance programmes. The Secretary of Agriculture had had authority to donate dairy products overseas during the period 1949-1967. When the Food for Peace Act was passed in 1966, authority for overseas donations was removed from section 416 with the result that the only authority for overseas donation of CCC commodities existed in the Title II PL 480 programme. The goal of the new reinstated Legislation Section 416 was to feed needy persons both in the United States and abroad.

36. The representative of New Zealand noted the importance of observing the normal consultation procedures in order to ensure that commercial exchanges were not affected by the donations.

37. The Chairman recalled that at the Council's last session reference had been made to the FAO Principles of Surplus Disposal and that the Arrangement contained relevant provisions.

38. Some clarification was requested regarding the data in the secretariat note on food aid. Any amendments that have been or may be indicated will be taken into account as appropriate in the next secretariat note on food aid.

Products not covered by the protocols

39. The following indications were given with respect to trends in milk production:

In Australia, milk production had been trending down for many years. However, in the 1981/82 season production had increased by 0.3 per cent to total 5,199 million litres. The immediate outlook for milk production was uncertain because of severe dry seasonal conditions. Milk production for 1982/83 season was currently forecast at around 5,170 to 5,190 million litres.

In Canada, the number of milk producers had fallen by about 6 per cent between 1 August 1981 and 1 August 1982. It was expected that the dairy herd would fall in 1982.

In Finland, milk production had declined in 1981 due to unfavourable weather conditions and also to the various measures carried out to reduce production. In the first half of 1982 deliveries of milk to dairies had

decreased by 6.7 per cent. However, since July 1982, weather conditions were favourable and it was expected that milk production would decrease by about 3.4 per cent in 1982 as compared to 1981. It was anticipated that milk production would remain stable in 1983 as compared to 1982.

In Japan, milk production had reached 6,610,000 tons in 1981, a 1.6 per cent increase over the previous year. Milk production had increased by 0.8 per cent in the period January-July 1982 as compared to the corresponding period of 1981. It was expected that production would slow down in the calendar year 1982 as a result of adjustment measures taken by the Government as of 1979. In the period January-July 1982 consumption of milk for drinking had increased by 1.3 per cent and consumption of milk for processing by 0.3 per cent. In the second half of 1981, domestic market prices of dairy products had remained firm and this firmness seemed to have continued in 1982.

In Norway, output had been up 1 per cent in 1981 and could increase by 2 to 3 per cent in 1982.

In New Zealand, manufacturing milk production for the 1981/82 season ended 31 May, had been almost the same as in 1980/81. The 1981/82 result had been due to better than average production conditions at the end of the season, and production had continued for rather longer than normal. Output for 1982/83 had been a little slower getting underway, as calving had been delayed. By mid-September 1982, however, production had been ahead of that recorded at the same time in the preceding year. Though it was too soon to estimate the production in the 1982/83 season, it was anticipated that production would be very close to or slightly higher than that of 1981/82 season.

In Poland, the dairy herd had declined sharply in 1980, from 6,048,000 head to 5,955,000 head. The downtrend had continued in 1981 (5,757,000 head) but some recovery had then been recorded; the results of the 1 June 1982 census had indicated a herd of 5,835,000 head. Milk deliveries, which had totalled 10,000 million litres in 1980, had dropped back to 9,264 million litres in 1981. Some recovery had then been recorded, and milk deliveries in 1982 were forecast at around 9,280 million litres, slightly up in relation to the preceding year.

In South Africa, milk production was tending to increase while consumption was decreasing. Measures would be taken to maintain the balance.

In Switzerland the results of the April 1982 livestock census had shown a decline by 1.4 per cent in the number of dairy cows and by 5 per cent in the number of heifers for breeding in relation to the preceding year. Consequently, milk output was not expected to increase. Nevertheless, some increase could result from improvement of genetic strains of dairy cows. In spring 1982, the fresh fodder season had begun late because of weather conditions, resulting in additional slaughterings,

with the consequence that milk output in summer 1982 had been down about 5 per cent in relation to the corresponding period of 1981.

In Uruguay's response to question 4 the figures for milk production reflected a considerable decline in the first half of 1982 in relation to 1981. It should be noted that the 1982 figures represent production actually marketed, whereas those for 1981 are an overall estimate of an industrial output.

40. The representative of the European Economic Community noted that it did not seem correct to attribute a decline in EEC production of whey powder to weaker prices of skimmed milk powder; in the EEC the price of skimmed milk powder could drop only to the level of the intervention price. Furthermore, since whey was a by-product of cheese, its output should follow a parallel trend.

41. The representative of Argentina noted that his country's exports of casein had declined in 1981 but an increase was expected in 1982. The principal destinations were the United States and Mexico.

42. The representative of Japan said that casein imports had declined by about 70 per cent in 1981 in relation to 1980, to the level of 19,000 tons. In the first seven months of 1982, however, they had totalled 13,000 tons, 10 per cent more than in the corresponding period of 1981.

#### General situation and outlook

43. The representative of the European Economic Community said that the situation in the dairy sector seemed to him disquieting. It would appear that consumption was declining, exports were dropping back; certain purchasing countries were reducing their imports. The decision by the committees not to increase the minimum prices of products covered by the protocols had, therefore, been opportune.

44. The representative of the United States concurred in that opinion.

45. The representative of New Zealand expressed the view that one should differentiate between the two aspects of the problem: the first being the weakness in the tone of the market, and the second the decision not to modify the minimum prices, a decision which should be taken in relation with various factors and not solely with market prospects. With respect to the general market situation, it was clear that the tone of the market was a little weaker than a year ago. The signs of weakening had been somewhat stronger in the case of skimmed milk powder than with other products. Concern had been expressed over that situation which was due in particular to the following factors: the level of stocks in the United States notwithstanding the efforts made by the authorities, Community production and stocks, uncertainty in regard to import trends in the USSR, which was a very important market for New Zealand and other exporters, and appreciation of the US dollar which had brought down international prices somewhat and

encouraged many importers to wait future developments. In the current economic context, all those factors had made the market more vulnerable. In the view of the New Zealand delegation, they should not be taken as unduly discouraging. Participants should recognize the situation and show discernment and caution with a view to safeguarding market stability, that being one of the prime objectives of the Arrangement. Such circumstances inevitably intervened from time to time. Co-operation and information exchanges under the Arrangement were, in particular, designed to contribute to stability that was in the interest of both importers and exporters. Sessions afforded an opportunity for objective discussion, while avoiding any undue optimism or pessimism. Considering the situation from a broader aspect, one should bear in mind that more than 470 million tons of milk were produced and consumed annually. For the past year, however, production had exceeded consumption by about 5 million tons, and in particular the surplus had resulted in increased stocks in the United States and the European Economic Community. Nevertheless, that imbalance represented only 1 per cent of the world total and in a liberalized trading system would be effectively removed by the interaction of supply, demand and price across the market as a whole. The difficulty was that the resultant problems were concentrated in a small part of the world market; international trade represented only about 5 per cent of that market and neither its present structure nor its size offered any possibility for remedying an imbalance of that order. Any solution must therefore be sought on the internal market of the major producers. Neither the United States nor the European Economic Community had tried to dispose of their surpluses to any substantial extent on the international market, and it was extremely important for dairy exporters that that responsible attitude be maintained. In addition, the United States, the European Economic Community and other producers were taking measures designed to remedy the imbalance; among them, the United States was maintaining a virtually unchanged support level for two years, measures had recently been taken to hold down production, and Japan had been maintaining the same support price for several years. The problem of Community production was not yet solved, and some disappointment was being felt over the level of the price increases adopted in the current year. Nevertheless, efforts were being made, in particular through the co-responsibility levy. Also in the Community a wide range of measures were in force which taken together have gone some way towards achieving a balance. It was relevant to note that efforts were being made to remedy the situation and that most participants in the Arrangement had reported measures designed to curb surplus production and/or encourage consumption. On the whole, the thrust of those developments was compatible with the commitments entered into by participants under the Arrangement, namely to avoid surpluses and achieve market conditions as stable as possible. It was necessary to maintain and increase the momentum; on that condition, and subject to a cautious, reasonable and objective attitude on the part of participants, the International Dairy Arrangement could play its rôle in market stabilization.

46. The representative of the United States said that he appreciated the recognition expressed for the efforts made by his country. He wondered if any information could be given regarding the dairy situation in the USSR, where it seemed that a production decline was expected in 1982, whereas favourable conditions would allow output to revert in 1983 to its 1981 level.

47. The observer for the Economic Commission for Europe communicated the following information regarding Eastern Europe and the USSR. Cow numbers in Eastern Europe at the beginning of 1982 showed a very marginal increase of about 0.2 per cent. Only the German Democratic Republic and Romania reported declines in the cow population, while the other countries of the region managed to keep their cow herds at more or less the same level as in the previous year. In the USSR cow numbers in the September census showed an increase of about 0.4 per cent. Milk production during the first half of 1982 showed a decline of about 1 per cent in Eastern Europe; with the exception of Bulgaria and Hungary, milk output declined in the other countries or remained stagnant. In the USSR milk production during the first eight months of 1982 increased by 0.6 per cent. From the scant information available concerning butter production during the first half of 1982 in Eastern Europe and the USSR, it seemed that the situation had improved slightly compared with the previous years. In the USSR butter output increased by about 1.7 per cent. The increases in milk and butter production reported by the USSR did not mean however any lasting recovery in Soviet dairy farming. The USSR might be facing a bad crop for the fourth consecutive year, worsening the already difficult feed situation. For the whole of 1982, it could be expected that milk and butter output would stagnate or decline slightly. Up to now shortfalls in home production of butter had been offset by imports. In 1981 the USSR imported 215,000 tons of butter. No information was available on Soviet imports in 1982, but it was assumed that the USSR was purchasing less butter on the world market than in 1981.

48. The observer for OECD recalled that the organization he represented was preparing medium-term forecasts; although the exercise had not yet been completed, he could indicate the first results. Those forecasts were based on data communicated by OECD member countries - data which had not been harmonized - the object of the exercise being to show what was the foreseeable situation failing any action designed to counter it. In addition, data had been furnished on different dates; for some of them the impact of recent measures had been taken into consideration, while that had not been the case for indications communicated a longer time ago. Referring to yield per cow, he underlined that the increase was the source of problems in the market. In many forecasts received, a 10 per cent increase was envisaged between 1980 and 1987. That disquieting figure showed how government efforts could be set to nought. No decline was expected in the number of dairy cows; except in Turkey, where an increase in livestock was forecast, the dairy herd would remain stable. Increased

yield and stability of the herd would result in an increase<sup>1/</sup> by nearly 7 per cent in milk output between 1980 and 1987, i.e. by about 14<sup>1/2</sup> million tons. In the seven preceding years, an increase by 22 million tons had been recorded. There had therefore been some slowing-down, by about one third, in the increase - a modest result in relation to the efforts undertaken to that end. Only two countries expected a decline in their output: a very slight decline in Australia, a 12 per cent decline in Finland. In the case of the latter country, the downtrend was in relation with the increase in slaughter weight for the bovine meat market, showing the relation - which must be recognized - between<sup>1/</sup> the dairy sector and the rest of agriculture. It was expected that the 14<sup>1/2</sup> million additional tons of milk would be made up as follows (in million tons): liquid milk + 3; cheese + 5<sup>2/3</sup>; preserved milk products + 1; butter + 5. With respect to consumption, the salient factor in recent years had been the increase in cheese consumption. The exercise had shown unfortunately, that consumer countries were expecting the rate of that increase to slow down considerably. Even if that estimate was unduly pessimistic, it was unrealistic to expect that that consumption could take up the surpluses forecast. According to estimates, butter consumption was likely to remain stable overall; the trend recorded in recent years seemed to have levelled off. Export availabilities would increase from 630,000 tons in 1982 to 870,000 tons in 1987. Production of skimmed milk powder, in parallel with that of butter, would also increase by a percentage that could be close to 10, while export availabilities would be up by about 450,000 tons. Those forecasts were a cause for real concern and the policies applied should be designed to counter them.

49. The Chairman noted that numerous concerns had been expressed and disquieting prospects could be seen ahead. He reiterated his hope that co-operation among participants and their responsible attitude would allow stability to be maintained in the international market. He thanked the observers for the contribution they had made to the work of the Council.

#### Status report

50. The Chairman noted that the status report on the world market for dairy products, which for the first time contained graphs showing price trends, together with tables showing consumption and the breakdown of trade by regions, would be revised by the secretariat in the light of discussions at the current session and taking into account any amendments and updates communicated. It would then be made available for general distribution.

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<sup>1/</sup> Revised figure. At the time of the meeting, the increase was expected to be 15 million tons.

<sup>2/</sup> Revised figure. At the time of the meeting, the increase was expected to be 6 million tons.

Other business

Dates of next sessions

51. The Chairman proposed that, as for the 1981 sessions, a preliminary programme should be established for 1983. The dates of 24 and 25 March and 29 and 30 September could be set provisionally for the Council. A decision on those dates could be taken later, when determining in December the dates of the Committees' sessions.

Reports

52. The Council agreed to request its Chairman to prepare and present, under his own responsibility, a report to the CONTRACTING PARTIES on activities under the Arrangement.

53. The Chairman said that he would also prepare, under his own responsibility, a note on the current session and would have it circulated.