

GENERAL AGREEMENT ON TARIFFS AND TRADE

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International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

EIGHTH SESSION

Report

Chairman: Mr. R. Long

1. The International Dairy Products Council held its eighth session on 24 March 1982.
2. In the absence of Mr. C.G. O'Hanlon (Chairman), the Vice-Chairman (Mr. L. Paunescu) opened the session and welcomed participants and observers from contracting parties.
3. The Council adopted the following agenda:
 - A. Election of Chairman and Vice-Chairman
 - B. Admission of observers under Rules 11 and 14 of the Rules of Procedure
 - C. Review of the functioning of the Arrangement
 - Reports 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 Vice-Chairman
4. In pursuance of Rule 2 of the Rules of Procedure, the Council elected Mr. R. Long (Ireland) as Chairman and Mr. A. Cruit (United States) as Vice-Chairman. Appreciation was expressed to Mr. C.G. O'Hanlon (Australia) who had presided with such energy and efficiency over the Council's work in 1982, and to Mr. L. Paunescu (Romania) who had held the office of Vice-Chairman over that period.

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 earlier sessions, 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 as at earlier sessions, the Council was informed that OECD, UNCTAD, FAO and the Economic Commission for Europe had been asked to indicate the agenda items on which they wished to attend the discussion and invited representatives of those organizations to follow the discussions at the current session as observers.

C. Review of the functioning of the Arrangement

Reports on the twelfth and thirteenth 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 of the Protocol Regarding Milk Fat and the Committee of the Protocol Regarding Certain Cheeses on their twelfth sessions, circulated as documents DPC/P/17, DPC/F/17 and DPC/C/17 respectively. An oral report was made by the Chairman of the Committees on their thirteenth sessions, held consecutively on 22 and 23 March 1983.

8. In that report, it was noted that each of the Committees had entrusted the office of chairman to the secretariat (Mrs. F. Hubert) and after examining replies to questionnaires and the summary tables, had reviewed the market situation for the products covered by each of the protocols. The Committee of the Protocol Regarding Certain Cheeses had noted that cheese production seemed to have continued to rise in 1982 at around the same rate as in 1981, but that slower growth was expected in 1983, reflecting less sustained demand. World cheese trade, which had remained active in 1981, could have slowed down somewhat in 1982, in which year certain participants had recorded a slower increase or even a decline in their exports. While according to available data most participants, and in particular the United States, EEC and Japan, had recorded an increase in their imports, on the other hand import growth in the developing countries seemed to have slowed down or even come to a halt. Cheese consumption was reported to have increased further in 1982, with varying trends from country to country. In certain countries the rate of increase seemed to be slowing down, however, falling behind the increase in production. Those various factors had led to an increase in stocks. At the end of 1982, cheese stocks in most major producing countries had been larger than one year earlier. Concern had been expressed regarding the level of stocks held by the United States and modalities for their disposal. The Committee had been informed of the foreseeable trend in those stocks as well as of

donations made, in particular under Section 416, and of the consultation procedures carried out. International prices for Cheddar cheese, which had remained relatively stable in 1982 and at the end of the year had been around US\$1,700 per ton f.o.b., seemed to have weakened in early 1983 because of keener competition in certain markets and were currently in a bracket between US\$1,550 and US\$1,650 per ton f.o.b.

9. The Committee of the Protocol Regarding Milk Fat had noted that butter output had increased in 1982 in relation to the preceding year, when a decline had been recorded. The increase in 1982 had been in the EEC, North America and Oceania in particular. In the USSR too, output seemed to have increased in 1982 after several years of decline. Further progress in world butter output was expected for 1983. Butter exports of major participants had shown varying trends in 1982. Overall, however, international trade seemed to have slowed down. Butter exports by the EEC had declined, while those of New Zealand had expanded, and because of the increase in stocks the United States had been exporting butter since 1981. Imports of butter and anhydrous milk fat by developing countries, in particular the OPEC countries, seemed to have declined in 1982. Imports by the USSR and Eastern Europe also seemed to have dropped back. Because of weaker demand, the slowdown in trade could continue in 1983. Aggregate consumption of butter had probably dropped back in 1982, despite increases reported by certain countries and a variety of measures taken to promote butter consumption. At the end of 1982, total butter stocks had been well above their level at the beginning of the year. In the EEC, stocks had increased substantially in the course of 1982 and in early 1983. Stocks had also increased in the United States. Concern had been expressed regarding the current level, foreseeable trend and disposal conditions for those stocks. International prices of butter had weakened in 1982 and at the end of the year had been fluctuating between US\$2,130 and US\$2,200 per ton f.o.b. That weakening seemed to have continued in early 1983, and prices were currently reported as being in a bracket between US\$2,000 and US\$2,200 per ton f.o.b. With respect to anhydrous milk fat, production and exports by the EEC and New Zealand had dropped back in 1982. World prices of anhydrous milk fat, which had weakened in 1982 and at the end of the year had been fluctuating between US\$2,200 and US\$2,300 per ton f.o.b., were reported in early 1983 as being in a bracket between US\$2,350 to US\$2,400 per ton f.o.b. Nevertheless, certain sales had been reported at lower prices.

10. The Committee of the Protocol Regarding Certain Milk Powders had noted that production of skimmed milk powder seemed to have increased in 1982 considerably faster than in the preceding year, and that the trend could continue in 1983. International trade in skimmed milk powder had declined in 1982 for the second consecutive year. EEC exports had dropped back sharply, while deliveries by New Zealand and the United States had also declined. Exports by Canada and Australia had increased appreciably. On the import side, purchases by Japan had rallied in 1982 after having declined in 1980 and 1981. Imports by developing countries had continued to drop back in 1982. With demand continuing weak, international trade could decline further in 1983. Consumption of skimmed milk powder seemed

to have fallen off in 1982, with varying trends according to the country concerned. Aggregate stocks of skimmed milk powder at the end of 1982 had been well above their level at the beginning of the year, the increase being particularly pronounced in the EEC and the United States. Stocks had continued to accumulate in early 1983 and a further increase was expected over the year. International prices of skimmed milk powder had been weakening throughout 1982 because of contraction of demand and appreciation of the United States dollar. As a result inter alia of keener competition, they had continued to decline in early 1983 and seemed to be in a bracket between US\$800 and US\$950 per ton f.o.b. There had been reports, however, of certain sales at lower prices. Output of whole milk powder had declined in 1982 for the second consecutive year. According to replies to the questionnaire, whole milk powder exports which had increased in 1981 seemed to have slowed down in 1982 with varying trends according to the country concerned. With respect to imports, purchases by developing countries had declined after having increased rapidly until 1981. International prices of whole milk powder had weakened in 1982 and at the end of the year had been in a bracket between US\$1,350 and US\$1,400 per ton f.o.b. In early 1983, they were reported in a bracket between US\$1,200 and US\$1,350 per ton f.o.b.

11. The Committees had noted the serious concern felt over the current situation in the dairy market, particularly with respect to skimmed milk powder and butter. For avoiding any disruption of the international market, the Committees had underlined the decisive importance of participants maintaining a responsible attitude, of effective co-operation, and of strict application of the provisions of the Arrangement.

12. The Council took note of the reports by the Committee.

Replies to Questionnaire 4 and 5

13. The Council took note of the data furnished in reply to Questionnaires 4 and 5 and requested participants to communicate to the secretariat as soon as possible their replies to those questionnaires under Rule 23 of the Rules of Procedure. The Chairman recalled that the inventory of domestic policies and trade measures was currently being revised. In order to keep the revised inventory up to date, it would be useful if participants were to communicate, within the time-limits stipulated in Rule 23, not only any changes in the policies and measures described in the inventory, but also, in cases where there had been no changes, a note to that effect.

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

14. 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/26) and a note on food aid operations in dairy products (document DPC/W/27).

Dairy policies

15. The representative of the European Economic Community said that the 1982/1983 milk marketing year had been extended; full information on the prices and provisions to be applicable during the coming marketing year would be communicated as soon as they had been adopted.

16. The representative of Norway stated that from 1 January 1983, a two-price quota system had been implemented. The quota was 92 per cent of average deliveries in the last three years with a price of about NOK 2 per kg. For deliveries above the quota the price was about NOK 1 per kg. The aim was to reduce milk production from 1,870,000 tons to 1,800,000 tons. It was expected that the effect of the measure would be seen in the second half of 1983. Negotiations had just begun on a new agricultural agreement to cover the period 1 July 1983-30 June 1984; as soon as they had been completed, the Norwegian delegation would communicate the results.

17. The representative of the United States underlined the concern felt in his country regarding the dairy market situation and reported on measures taken or under consideration. With respect to the assessment of 50 cents per 100 lb. of milk sold which had been announced at the last session (see document DPC/8, paragraph 28), the legality of its application had been questioned and the assessment, which was to have been operative as from 1 December 1982, had been suspended temporarily and would only take effect on 16 April 1983. Application of the second authorized assessment had been delayed to give Congress time to adopt more effective legislation. If no new legislation had been enacted by 1 August 1983, application of that assessment would be reconsidered. Application of the first assessment should contribute to balance production. However, several alternatives to the existing assessment programme were now being proposed in Congress, such as to eliminate assessments, to lower support levels or to establish production bases. The administration wanted legislation giving the Secretary of Agriculture flexibility over time to adjust the support level up or down. The various programmes implemented to dispose of surplus stocks on the domestic market had had the effect of reducing the levels of those stocks from earlier forecasts, but they nevertheless remained high. Donations made under Section 416 had been reported (see document DPC/W/28), as well as the consultation procedures followed. All those donations were additional to normal commercial sales. In those various ways, the United States was trying to bring production and demand into balance, and to dispose of stocks without disrupting the market.

18. The representative of Sweden said that a special committee had been appointed by the Government to review existing agricultural policy. The committee would be making proposals concerning the present surplus production later in 1983. Since mid-1982, some measures had been introduced to cope with the production surplus, such as from 1 July 1982 abandonment of delivery additions for dairy farmers sixty-five years and more of age and from 1 January 1983 non-production grants to dairy farmers

between sixty and sixty-five years of age. Practically no State credits were given to milk production. A two-price system for milk was now being discussed and premiums had been recently introduced for slaughtering of young heifers. A decision was expected in mid-April regarding the temporary prohibition on establishment of new farm buildings for milk and meat production.

19. The representative of Finland described that country's current dairy policy. The few changes that might be made to it in the near future would also aim at controlling surplus products. A new Act to balance agricultural production had been introduced as from February 1983. It repeated many of the measures formerly used to curtail production. For the execution of this law the Government could spend annually up to 20 per cent of the subsidies received for all agricultural exports. Under the law, a farmer could undertake to reduce all agricultural production, animal production or dairy production or to leave fallow at least a third of his arable land area and receive compensation for doing so. The establishment of new large animal production units had been regulated by law for some years. Permission from the Board of Agriculture was required if the new production unit was going to have inter alia more than twenty dairy cows. However, average units of dairy production were below that number so that any production increase could only be effectively controlled through prices. New measures were under consideration for that purpose.

20. The representative of South Africa said that there had been no changes in his country's dairy policy which constituted part of the country's general policy of stabilization of prices of major agricultural commodities and rationalization of the relevant industries. The actual operation of the scheme was indicated in the reply to questionnaire 5. Dairy production acted as a balancing factor in the farming systems practised in large parts of the country which were subject to very variable and often unfavourable weather conditions. Dairy farming formed part of a mixed-farming structure and, according to weather conditions and their effects on other farming activities, milk production could be of greater or less relative importance.

21. The observer for OECD noted that at the meeting held by that organization at the end of 1982, Ministers for Agriculture had underlined the attention that should be given to the question of surpluses in numerous agricultural sectors. To that end, and on the initiative of the Secretary-General of OECD, a meeting had recently been convened between several representatives of major producing and trading countries; the useful exchange of views which had taken place on that occasion would be continued in the near future, and could then perhaps focus on the dairy situation. OECD had been giving attention to the agricultural sector for many years; with respect to the dairy sector, it was currently concentrating on the question of production, and hence of supply control, which was central to current problems. Noting the difficulty of those problems, he underlined that all efforts undertaken in a spirit of co-operation could be useful in the search for a solution. In the context

of work on positive adjustment, OECD had carried out a study on income support measures in the agricultural sector. In a supplementary contribution completed recently, the dairy sector had been the subject of a study that would shortly go before the Agriculture Committee, regarding policies applied in recent years and their results. The study showed that in general those policies had been motivated more by social factors than by economic factors, resulting in the current situation of surplus. In attempts made by various countries to control the situation, the OECD Secretariat had noted the relative success of quota measures as compared with other means employed.

22. The observer for Canada stated that Canadian demand for dairy products had been declining slightly and in the dairy year 1982/83 was expected to finish somewhere between 42 and 42.8 million hectolitres (milk equivalent) as compared with a figure of 42.8 million in 1980/81. Per capita disappearance of butter had been on a declining trend since 1971 and the decline was expected to continue. Increased sales of 2 per cent butterfat fluid milk, in preference to full cream milk, were also being registered. Canadian exports of whole milk products (evaporated milk and whole milk powder) had reached a peak (3.3 million hectolitres in milk equivalent) in the 1980/81 dairy year. However, the recession had caused a number of Canadian key markets to purchase one third less of Canadian products in 1981/82 and sales had continued at that lower level in 1982/83. For production of industrial milk and cream, controlled by the Federal Provincial Supply Management Plan, the national market share quota had been set at 48.9 million hectolitres in 1981/82. Effective 1 January 1983, that quota had been reduced to 46.7 million hectolitres; the in-quota levy (\$3.30 per hl. in 1981/82) had been increased to \$5.14 and the over-quota levy (\$20.21 per hl. in 1981/82) to \$27.95. The Government had applied a restraint of growth in support prices of 6 per cent for the fiscal year 1982/83 and 5 per cent for the fiscal year 1983/84; as a result butter and skimmed milk powder support prices were now only 6 per cent above the levels of a year ago and returns to producers - net of levy - on in-quota production were \$36.26 per hectolitre, slightly below the level for January 1982. On over-quota production, the return (net of levy) was now only \$7.42 per hectolitre. The extent to which the increases in the levies had an impact was now being seen and the rate of growth in milk production was slowing. However, industrial milk and cream production in August-December 1982 had been running 6.7 per cent ahead of the figures for 1981, due to depressed conditions in other sectors of agriculture, and mild weather. Despite the current reduction in production the increase for the entire 1982/83 dairy year, as compared to the previous year, was expected to be of the order of about 10 per cent. In the 1983/84 dairy year, Canadian demand was expected to continue at or slightly below the current levels and the supply management system was likely to bring about a reduction in production. As a result, industrial milk and cream production could be about 45 million hectolitres or 10 per cent below the 1982/83 production estimates. The returns to producers (net of levy) were not expected to increase above their current levels; they could fall even below current levels on over-quota production as a result of weak world

market prices. With respect to quota allocations, the Canadian Dairy Commission determined on the basis of total demand the market share quota which was then distributed to the provinces, and they distributed their market share quota on the basis of their own decisions.

Food aid

23. Opening the discussion on this agenda item, the Chairman recalled the relevant provisions of the Arrangement (Article V); he underlined the need for full information on food-aid operations, noting that unless they were taken into consideration, no evaluation of the situation in the world market for dairy products was feasible.

24. The representative of New Zealand recalled the importance of food-aid operations in international trade in dairy products, of which they represented a considerable share. Because of the decline in the volume of international trade, aid shipments were of growing significance. During a time of economic recession commercial trade could not be expected to increase at normal rates of growth and consequently food aid might assume importance for humanitarian reasons. A prime consideration in international aid should be that programmes, as distinct from disaster relief actions, were designed to assist the long-term development of recipient countries. To that end aid programmes should include a long-term commitment to supply stable quantities - if aid programmes were large and short-term in nature there could be serious dislocation to domestic suppliers and other import sources. Care should be taken to ensure that aid programmes resulted in increased consumption and did not displace local production or other traditional market suppliers. It was essential that participants abide fully by the FAO "Principles of surplus disposal and consultative obligations", as referred to in Article V.2 of the Arrangement, and, in addition, that they adhere to their obligations under Article V.1(b) of the Arrangement to notify the Council, in advance, each year of the scale, quantities and destinations of their proposed contributions of food aid. Such notifications should include not only government-to-government transactions but those donated by governments through private charitable organizations. The size of the commercial market in many countries receiving dairy food aid was very small and therefore particularly vulnerable to disruption by aid transactions, should the latter leak on to the commercial market. It was therefore extremely important that adequate safeguards be incorporated in aid programmes and that consultations be entered into with traditional exporters to the market-place before programmes were finalized.

25. The representative of the United States said that he would transmit those remarks to his authorities, but that it was difficult to notify in advance, and for each year, operations that were negotiated over a period of time. The objective and the intent of the United States were indeed to ensure that those donations did not displace normal commercial trade. A list of the transactions which had taken place so far under Section 416 had been made available to participants and the consultations held had been

reported (see document DPC/W/28). A comparison of donations on the domestic market and abroad showed clearly that by far the bulk of the effort was on the domestic market.

	Domestic donations (metric tons)	Foreign donations (metric tons)
Cheese 1982 ¹	149,000	5,000
1983 ¹ (forecasts)	293,000	20,000
Butter 1982 ¹	62,000	6,000
1983 ¹ (forecasts)	117,000	20,000

26. The representative of the European Economic Community noted that the EEC had always observed the commitments it had taken on regarding deliveries of skimmed milk powder and butter oil as food aid. Each year, the Commission proposed to the Council the earmarking for such aid of a quantity of skimmed milk powder (150,000 tons) and of butter oil (45,000 tons) which had remained stable for several years past, in order to give the recipient countries an assurance of continuity in the operations. The EEC was observing the rules in regard to such operations and believed that in those conditions food aid, which was a necessary measure, should not give rise to any problems.

27. The representative of New Zealand underlined the tightness of the international market, and the high risk that food-aid operations could entail. That was why his delegation attached importance to the need for consultations and for strict observance of the relevant procedures.

28. The representative of Finland said that cheese deliveries as food aid had totalled some 1,000 tons in 1982 and were expected to be around 1,140 tons in 1983.

29. The representative of Switzerland said that in the year 1982 Switzerland had made the following food-aid deliveries: 2,330 tons of whole milk powder, 904 tons of skimmed milk powder, 564 tons of processed cheeses, i.e. a total of 3,836 tons of dairy products. Such aid was expected to reach the same order of magnitude in 1983, representing a value of Sw F 33 million. Although by reason of its volume, that aid was having no influence on the international market, the relevant operations had been notified to the CSD since 1982.

30. The observer for Canada said that over the period 1978 to 1983 food-aid operations had averaged some 12,400 tons of skimmed milk powder each year. For the current fiscal year, such operations could be of the order of 14,000 tons.

¹ Fiscal years

31. The representative of Argentina raised the question of a discrepancy in the secretariat note (document DPC/W/27) between certain figures reported by supplying countries and those reported by recipient countries.

32. The Chairman said that in order to make a comprehensive evaluation of the world market situation, the Council needed to have accurate, clear and detailed information. He recalled the provisions of the Arrangement to which reference had been made, in particular those of Article V, paragraphs 1 and 2.

Products not covered by the Protocols

33. The representative of the European Economic Community noted that in 1982 the Community's milk production had exceeded the forecasts: provisional figures indicated it as totalling 107.7 million tons. Farm utilization of milk had again declined very slightly, while deliveries to dairies had risen to 99.6 million tons. Milk consumption in the form of fresh products (milk equivalent) was estimated at 26.2 million tons, only very slightly above the preceding year's level. A fairly substantial rise in consumption of fresh products in recent years had given rise to hopes which seemed to be vanishing, perhaps because of demographic factors. According to provisional data, exports of fresh products and cream (milk equivalent) had increased by 25 per cent in 1982 in relation to the preceding year and those of condensed milk by 9 per cent. Casein production in 1982 had been 24 per cent above the preceding year's level (provisional data) and exports of that product, which had decreased in 1981, had increased to 58,000 tons in 1982; casein imports had also risen. On the other hand, exports of whey powder had dropped back 12 per cent. A similar decline in exports had been recorded for all other products (milk powder, butter and butteroil), except cheese.

34. The representative of Argentina said that casein exports had totalled some 2,000 tons in 1982, the countries of destination having again been the United States, Brazil and Mexico. There had been no exports of other products not covered by the Protocols. In 1982 Argentina had imported small quantities of casein and casein products, as well as whey, from the United States and Uruguay.

35. The representative of Australia said that milk production in the 1982/83 season could reach 5,250 litres. That figure could be exceeded, however, if weather conditions continued favourable in the major milk-producing regions. With respect to casein, over the period July-December 1982 production had reached 9,027 tons, an increase by 47 per cent over the corresponding period of 1981. In that same period, exports had totalled 7,174 tons. Output in the 1982/83 season was estimated at 11,500 tons. The casein market was currently showing some weakness.

36. The representative of New Zealand said that due to favourable weather conditions, milk production in New Zealand for the seven months June to December 1982 had been up 6.7 per cent on year earlier levels. However,

dry weather conditions since December had been experienced in some major milk producing areas. Milk production in the 1982/83 season was expected to be up around 4 per cent on 1981/82 levels. Consumption of liquid milk had declined, while that of certain products such as ice cream, yoghurt and cottage cheese had expanded, reflecting to some extent a change in dietary habits. Liquid milk consumption had been declining since 1976 as a consequence of the price increase and the diminishing importance of the consumer subsidy, as indicated in New Zealand's reply to questionnaire 5. In order to combat that trend, the Town Milk Industry had placed greater emphasis on milk promotion and product diversification but its efforts had not yielded the results hoped for. Casein output had increased in the previous year and was expected to continue to develop in the current year. There had been signs of weakness in the casein market where competition had recently been keener.

37. The representative of the United States said that milk production was forecast at around 62.5 million tons in 1983, i.e. about 1.5 to 2 per cent over the previous year's level, with most of the gain coming in the first half of the year. Milch cow numbers might decline slightly during 1983 but output per cow was still rising. Abundant feed supplies were helping to hold down production costs. Commercial use of dairy products was expected to be up around 2 per cent in 1983 as retail prices were showing only limited upward movement.

38. With respect to milk production, the following information was communicated:

Sweden: Milk deliveries to dairies in 1982 had increased by about 5 per cent as compared to 1981. That trend had continued during the first months of 1983 mainly due to the previous very favourable season for fodder crops.

Switzerland: Milk deliveries had declined 1 per cent in 1982 in relation to 1981, and had been below the total production quota that had been set. No fundamental changes were expected in 1983. Output was currently increasing slightly, but in the coming months the increase should not exceed 1 per cent. Milk deliveries in 1983 would probably return to their 1981 level.

Norway: In 1982, production and deliveries of milk had increased by 3 per cent.

Finland: In 1982, total milk production had decreased by 0.3 per cent to reach 2,860 thousand tons. However, production was increasing and was expected to be between 2,940,000 and 2,980,000 tons in 1983, depending on weather conditions.

South Africa: Total milk production in 1982 had increased by some 6 to 7 per cent over 1981 and would probably continue to increase in the near future.

39. The Chairman noted that the information furnished would be taken into account in the next status report, on the basis of which the Council might appropriately have a more detailed discussion at its next session on products not covered by the Protocols.

General situation and outlook

40. The representative of the European Economic Community said that, according to forecasts, deliveries to dairies in the Community could increase by at least 2 per cent in 1983. Although weather conditions could substantially alter such forecasts, milk production in the twenty-three major producers could be expected to increase by about 1.8 per cent in 1983, representing for the year an additional volume of 185,000 tons of butter and 360,000 tons of skimmed milk powder. Despite the uncertainty of those figures, they indicated a trend in production that deserved some reflection.

41. Noting that it was still too early to have a complete and detailed picture of the milk and dairy products situation in Eastern Europe and the USSR for 1982, the observer for the Economic Commission for Europe gave the following indications. At the beginning of 1983 cow numbers in Eastern Europe had been about 0.2 per cent higher than a year earlier. Also in the USSR dairy cows had increased by 0.2 per cent reaching 43.7 million head. Preliminary data on milk production in 1982 in Eastern Europe seemed to point to a decline by about 1 to 2 per cent, although the trends between countries were quite different. For instance, the German Democratic Republic had recorded a decline by about 6 per cent in production, mainly due to a shortage of animal feeding stuffs, while Bulgarian milk output had increased by 5 per cent. In the USSR production had increased by almost 1.3 per cent in 1982. Improved weather conditions during the summer and autumn had permitted the fodder production to be higher than in recent years. It was difficult, at the current stage, to predict whether that positive situation would continue in 1983. From the limited information available concerning butter production in Eastern Europe in 1982, the situation seemed to have improved somewhat compared to previous years. For instance in Czechoslovakia, butter output had increased by about 9 per cent and in Poland by 1.2 per cent. In 1982, production of butter in the USSR had increased by about 5 to 6 per cent, after several years of declining output. Production plans for 1983 set a target of an 8 per cent increase.

42. The representative of New Zealand noted that the international market could be considered as very fragile; and this was the result of a combination of the worldwide economic recession that had caused a general easing of commodity prices, and the overhang effect on international prices of surpluses in the United States and European Economic Community. However, there was a danger of overdramatizing the situation; that difficult period was foreseeable and if the right decisions were made, it would be possible to see the situation through. Because of the restraint shown by member countries, international prices had remained relatively stable in contrast to many other commodities. Nonetheless, there was a danger that unless firm resolve was shown by all producers, prices could slide to uneconomic levels. There were no stabilization mechanisms apart

from the GATT minimum prices. Those prices were presently below the desirable floor level for unsubsidized exporters such as New Zealand, if dairy exporting was to continue to be an economic proposition. If stability of the market was to be attained, those minima needed to be set at realistic economic levels and observed by all participants, small traders as well as large. An important part of their responsibility was an obligation not to disrupt trade through donation programmes. New Zealand was not opposed to the extension of dairy aid programmes per se, but strongly opposed the displacement of normal commercial trade by extended donation programmes put in place specifically to dispose of surplus production. New Zealand was naturally concerned at the possibility that the delicate balance in the fragile international dairy market could be upset if the United States and European Economic Community did not find common ground on appropriate policies. It was necessary to keep in clear view the effects of agricultural export subsidies on the dairy market and on efficient agricultural producers. Increasing domestic consumption was the key to the disposal of those excess stocks, as the international market could not absorb the quantities involved. The consumption study currently being undertaken within the Arrangement would provide useful information on individual member governments' policy objectives in that area. Rather than focussing solely on short-term problems associated with excess stocks, participants should be analysing carefully the domestic policies that had given rise to that situation. There was a need for producer returns to reflect international market prices more accurately and for domestic prices to move more into line with the international market price. The International Dairy Arrangement provided for emergency meetings of both the International Dairy Products Council and the Protocol Committees in case of need. Were the international market to worsen significantly in coming months an emergency meeting might be necessary. Meanwhile New Zealand saw merit in utilizing all possible occasions and venues - for the major dairy producers - to discuss the general situation as it developed and to encourage each other to refrain from disruptive market activity.

43. The representative of the European Economic Community underlined the concern being felt in the Community regarding the current level of stocks. Export prices offered by the Community were showing a stability that would be desirable on the part of all exporters. The Community's food aid operations were designed to give recipient countries a guarantee of supply continuity, and did not depend on the level of stocks. With respect to policy changes that would have to be made in order to balance supply and demand at sufficiently remunerative prices for efficient producers, there were various factors which determined policies, in particular in periods of recession and unemployment. Many countries were making efforts to balance supply and demand and the Commission's proposals to the Council were in line with the same purpose. The objective sought could only be reached in a spirit of co-operation.

44. The observer for OECD underlined that the fundamental problem was that of the policies which led to surplus production. With respect to disposal of stocks the USSR, which had furnished a solution to the problem in past

years, might not be able to play the same rôle in 1983. There were two additional general factors of uncertainty: on the one hand, the fall in oil prices and its effect on the purchasing power of countries which had recently been a positive element in the dairy market, and on the other hand the fact that, according to forecasts, the economic situation seemed to be improving, inter alia in the United States, which could on the contrary have a positive effect on consumption. In addition, one must take into consideration feed prices, in particular in the United States and Canada, where they were a decisive factor for milk production, so that attention should be given to payments in kind and other measures having an influence on the situation in regard to dairy products.

45. The representative of the United States recalled that his delegation had recognized the difficulty of the problem and the need to deal with it calmly and seriously. That was how his country was envisaging the matter and, as indicated, there were discussions on legislation which it was hoped would help.

46. The Council took note of the statements made and the information furnished, in particular with respect to dairy policies, probable trends in production, the level of stocks and food aid programmes. It noted the possible consequences on the dairy market of developments in the world economic situation and other factors such as oil prices or feed prices. It also noted the importance of developments in the dairy sector in Eastern Europe and the USSR. All those matters should continue to be the subject of close attention within the framework of the Arrangement which provided adequate procedures.

E. Other business

47. The provisional dates for the Council's next regular session are 29 and 30 September 1983; they will be confirmed by the secretariat after consultation with delegations.

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