

GENERAL AGREEMENT ON TARIFFS AND TRADE

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International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

Special meeting of 18 December 1984

Draft Report

Chairman: Mr. D. Greenfield

1. The International Dairy Products Council held a special meeting on 18 December 1984, under the terms of Article IV:6 of the Arrangement, and convened in conformity with paragraph 8 of the Resolution adopted on 16 November 1984 (DPC/13).
2. In opening the meeting, the Chairman recalled that the purpose of the meeting was to review the situation as it had developed, in the context of the Resolution of 16 November 1984, with a view to restoring the viability and credibility of the Arrangement.
3. He furthermore recalled that at the November meeting a number of comments were made concerning practical orientations to be given to the Council's review. Firstly, the Council should exercise a permanent control over the operations envisaged by the EEC and safeguard actions taken in consequence by other participants, and internal as well as external measures would also be considered in this regard. Secondly, the Council should ensure that the fullest information on their operations be notified by participants. Thirdly, the Council should begin an examination of action required to complete or modify the International Dairy Arrangement in order to ensure that the situation which gave rise to the 16 November Resolution would not recur.
4. In his view, this was a considerable task which could not be disposed of in only one or two meetings of the Council. He considered it to be essential therefore that in the immediate future, all participants should act in a manner which ensured that the market

recovered and that prices would be sustained above the minima. He expressed the hope that the conclusion of the meeting would be that all participants would reconfirm their commitment to the terms of the 16 November Resolution, and would agree to exercise the utmost self discipline and co-operation in order to restore the viability and credibility of the International Dairy Arrangement. An important aspect of this would be a decision to provide more frequent and timely information on transactions made.

5. The Chairman also drew the attention of the Council to the fact that the United States had given notice of its intention to withdraw from the International Dairy Arrangement, (L/5749), a decision which would take effect on 12 February 1985 in terms of Article VIII:8(a). He intended to give participants an opportunity to refer to this matter at the appropriate stage in the meeting, as he supposed there was a keen and legitimate interest in knowing what the intentions of the United States were regarding its future dairy trading policy beyond 12 February 1985. He assumed that, in the meantime, the United States would continue to act, de facto, in concert with the efforts of the other members to restore the situation, and noted that until the expiration of the delay of 60 days, the United States remained a member of the Arrangement. He expressed the hope that the United States would re-consider its decision to withdraw.

6. As to the organization of the work at this session, the Chairman proposed to start with a brief report on the market situation by the Chairman of the Protocol Committees which had met on the preceding days, and then proceed to a review of the situation as called for in the following order:

(a) the Community would be invited under paragraph (4) of the Resolution to make a statement regarding the abrogation of Title II of Regulation (EEC) no. 2956/84 and on the sales that had taken place under that Regulation;

(b) under paragraphs (2) and (3) other delegations would be invited to make statements on what sales had been made;

(c) "participants concerned" would be invited to comment on progress made on the policies and measures referred to in paragraph (5);

(d) under paragraph (7) of the Resolution, procedures for furnishing information under Article 4 of each of the Protocols should be considered;

(e) in the light of the foregoing discussions there would be an opportunity to comment on the question of reinforcing the provisions of the International Dairy Arrangement;

(f) under other matters for consideration, the Chairman suggested that the matter of the United States notice of withdrawal be taken up; and the Council might finally consider holding a further meeting of the International Dairy Council to keep the situation under review.

This agenda was adopted.

Review of the market situation

7. The Chairman called upon the Chairman of the Protocol Committees to give a brief report on the market situation.

8. The Chairman of the Protocol Committees first noted that the three written reports on the twentieth sessions of the Committees would be presented to the Council's regular session in March 1985.

9. At their sessions on 17 December 1984, the Committees had reviewed the market situation for the products covered by each of the Protocols. It was recalled that milk production - obviously a decisive factor for output of the products covered by the Protocols - after having increased by 4 per cent in 1983, was estimated to have remained relatively stationary in 1984, inter alia, because of measures adopted to that end. According to certain forecasts, milk production could remain stationary in 1985 as well.

10. With respect to skimmed milk powder, the Committee noted that, notwithstanding varying trends according to the participants concerned, aggregate output could show some decline for 1984 compared to 1983. The slight recovery of international trade recorded in 1983 could be more pronounced in 1984, in particular because of increased food-aid deliveries. Although still high, total stocks at the end of 1984 could nevertheless be expected to be below their level at the beginning of the year. International prices of skimmed milk powder seemed to have remained relatively stable throughout the fourth quarter of 1984. Overall production of whole milk powder, which was closely tied to demand, seemed to have recovered in 1984 after having declined in 1983. Exports likewise seemed to have rallied in 1984 and, according to certain reports, demand from developing countries had increased. International prices of whole milk powder seemed to have remained relatively stable in the fourth quarter of 1984, the lower limit of the range within which they had been fluctuating being close to the level of the International Dairy Arrangement minimum price.

11. The Committee of the Protocol Regarding Certain Cheeses noted that overall output of cheese continued to increase in 1984. Cheese exports, which had risen only marginally in 1983, had increased appreciably in 1984. At the end of 1984, aggregate stocks of cheese were likely to be below their level at the beginning of the year. International prices of Cheddar cheese had remained relatively stable in the fourth quarter of 1984.

12. The Committee of the Protocol Regarding Milk Fat noted that the Council was to hold a special meeting to review the situation. The Committee noted that aggregate production of butter for 1984 showed a slower increase than had been the case for 1983, and there could even be some decline in relation to that year. After having slowed down in 1983, the volume of international trade in butter was estimated to have increased in 1984. Aggregate stocks of butter at the end of 1984 were expected to remain at a high level, probably above that recorded at the beginning of the year. With respect to prices, the EEC had indicated

that for quantities sold under Regulation (EEC) no. 2268/84, prices of butter were in a range between US\$1,250 and US\$1,300 per tonn f.o.b., and prices of butter oil between US\$1,450 and US\$1,480 per ton f.o.b. Community sales of butter under Regulation (EEC) no. 2956/84 had taken place at prices between US\$450 and US\$500 per ton f.o.b.

13. The Chairman thanked the Chairman of the Protocols Committees for the resumé given and said that this was for information of the present special meeting only, as written reports would be submitted to the next regular session of the Council.

Abrogation of Title II of Regulation (EEC) no. 2956/84 and sales under that Regulation

14. The Chairman, in calling upon the Community representative, noted that on 8 December 1984, a Regulation (EEC) no. 3457/84 had been published whereby Title II of Regulation (EEC) no. 2956/84 had, in fact, been abrogated.

15. The representative of the European Communities merely referred to the declaration given by the Community representative at the last meeting of the Committee of the Protocol Regarding Milk Fat.

16. With regard to sales under the Regulation, he said that since the last meeting of the Council, the Community had received requests for the sale of certain quantities of butter to a number of countries or destinations, but export authorizations granted by the Commission had been granted only for the USSR. Requests had been received from other countries, a number of countries in the Middle East, and there had also been requests for exports to destinations in Eastern Europe. However, in view of the difficulties that might have been created for world markets in general and also for some of its partners, the Community did not meet the requests for exports to destinations other than the USSR. Quantities sold, or for which contracts had been entered into with the USSR, amounted to about 222,000 tonnes of which one half under Regulation (EEC) no. 2268/84 and one half under Regulation (EEC) no. 2956/84. About 25,000 tonnes would be exported to the USSR before 31 December 1984 and the rest would be delivered by 30 June 1985, on the assumption that transportation problems would not occur.

17. Finally, he pointed out that by adopting the Regulation (EEC) no. 3457/84, the Community had fulfilled its promise made at the meeting of the Council on 16 November 1984, and that Title II of Regulation (EEC) no. 2956/84 had consequently been abrogated by mid-December 1984. He hoped that other participants would provide equivalent information and if this was desirable, the Community might provide the information given in the Council and the Committees, in writing, however, on the basis of reciprocity.

18. The representative of New Zealand expressed his satisfaction that the Community had revoked the Regulation which had permitted the sale of butter below the GATT minimum price. He pointed out, however, that establishing that possibility for traders, although only for a short time, had had a serious destabilizing effect on the market, quite apart from its impact on the credibility of the International Dairy Arrangement. He was struck by the information about the enquiries received from other countries which would have liked to have had the facility to purchase that butter themselves, and noted that the Community had resisted the temptation to extend the coverage of the Regulation to permit such sales. He appreciated that the Community had resisted, and pointed out that this was in conformity with the view prevailing at the previous meetings of the Council and the Committee of the Protocol Regarding Milk Fat. The very fact that such enquiries had been received did demonstrate the air of expectation and the instability that had been created by the action. He therefore noted with satisfaction that the Regulation had been rescinded and hoped that the Community could give an assurance that further sales below the GATT minimum price would not be made. That would be an important message to importing countries.

Reports of sales made and actions taken in relation to paragraphs 2 and 3 of the Resolution

19. The Chairman recalled that under paragraphs (2) and (3) of the Resolution, participants were requested to exercise the greatest restraint in making their sales in the current situation and to take the interests of other participants fully into account, and he accordingly invited delegations to make statements on sales that had been made, or on any action taken in the short term to safeguard their positions.

20. The representative of the United States reported that the United States Secretary of Agriculture had announced, the signing of an agreement with Egypt for 15,000 tonnes of butter and 15,000 tonnes of butter oil. He did not have any further details available, but he understood that sales had been made at prices above the IDA minimum prices.

21. The representative of the European Communities said that he had already received some information about recent United States sales of dairy products to Egypt, but only of butter and butter oil, not of cheese for processing. According to this information, the butter had been sold at a price of \$1,275 f.a.s. and the sale was made in Egyptian pounds, with a delay for payments of thirty days. He expressed some doubts as to the conformity of such sales with the provisions of the Arrangement.

22. The representative of Egypt noted that with regard to paragraph (2) in the document DPC/13, there was a reference to developing countries, as it was said that the Community measures constituted a threat to the trade interests of all other participants in certain markets, in particular for developing countries. He felt that this would only apply to developing exporting countries.

23. The representative of Uruguay said that with reference to paragraph (2) and the clarification that had been requested, he wanted to stress that the reference to the developing countries meant that both developing and developed countries had signed an international agreement based on a certain number of principles which they were committed to respect. If one party did not respect the Arrangement as signed and negotiated by all participants, this would pose a prejudice, in particular to developing countries. It was for this reason that a reference to developing countries had been made. He stressed that there was no reference to exporting or importing developing countries in Article I or Article IV of the Arrangement. The Arrangement established a number of principles which all participants were committed to respect. The reference to developing countries in the Resolution had been made recognizing the particular difficulty the Community sales to the USSR had caused to a developing country.

24. The representative of the European Communities referred to information he had received which indicated that national authorities were not well informed of what was going on. He sought a confirmation of a sale that had apparently taken place very recently and which, according to the information he had received, concerned sales of fresh butter, sold in deutschmarks using the rate of conversion of the deutschmarks to dollars, resulting in a price between US\$1,130 and US\$1,140 per tonne c.i.f. Taking account of freight costs, this would mean a price of US\$930-940 per tonne f.o.b. However, no confirmation of this information was made by any other participant.

Policies and measures referred to in Paragraph (5) of the Resolution

25. The Chairman recalled that the Resolution urged participants to pursue a policy designed to reduce stocks and ease market pressure, and he consequently invited participants to report on any steps taken to that effect. He expressed the view that the matter had long-term aspects and could perhaps more appropriately be extensively discussed at the next regular meeting of the Council.

Procedures for furnishing information under Article 4 of each of the Protocols

26. The Chairman recalled that paragraph (7) of the Resolution called for close co-operation among the participants and made a reference to Article 4 of each of the Protocols annexed to the Arrangement. In this context, he also recalled the Rules of Procedure adopted by the Council in February 1980, notably Rule 26 which added to the provisions of Article 4, that the respective notification should be made within twenty days (DPC/1/Annex, Rule 26). The secretariat had produced a draft format which might be used by participants in making such notifications. Given the nature of this exercise, a standard format would obviously be very useful, and the Chairman suggested that participants should make the information available on the basis of the format, on a best endeavours basis. The secretariat might try to prepare some form of summary table, which could be circulated showing what had been notified. He stressed that the format was just an informal document that had been circulated, in order to assist participants in fulfilling their task of notifying sales, according to paragraph 4 of each of the Protocols.

27. The representative of New Zealand suggested that an additional column be included referring to the date of sale and this would probably require a footnote also making a provision for the rather specific case of tenders, a subject which had come up in recent meetings. He could communicate more precise suggestions through the secretariat if no other delegations had any objection to that.

Reinforcing provisions of the Arrangement

28. The representative of New Zealand thought the Council should focus its attention on possible means of strengthening the Arrangement in view of the recent problems which had given rise to this meeting. His own delegation, like others, had been rather preoccupied with this. But as the situation with the more immediate circumstances had arisen very recently, he was not yet prepared to discuss specific approaches in detail, nor did he think it would be appropriate to do so at this meeting. It would have to be borne in mind that the main factor that had contributed to the difficulties in which the Agreement now found itself was the very substantial surplus of dairy products, of butter in particular, with surplus stocks held in particular by one participant. It was very difficult to see how that problem could be overcome satisfactorily, other than through measures to be taken at the production end. New Zealand appreciated that the Community was taking steps to arrest the growth of production of milk and indeed to limit production. He hoped that the Community would achieve that and indeed bring the problem under control. New Zealand was more than willing to participate constructively in the consideration of any suggested possible means of strengthening the Arrangement. He felt that this was something to be carefully considered over the next month or two and with determination to make progress. It may be that the appropriate time would be in March but he preferred not to take a firm position on that at the moment.

29. The representative of the European Communities felt that the International Dairy Products Council may not have been sufficiently vigilant as concerns the situation on the international market, and did not pay sufficient attention to certain external factors, such as the application of national dairy policies. He recalled that minimum prices in the Protocols and in particular in the Milk Fat Protocol had been

subject to revision in October 1981. Taking account of developments of national currencies and effects on incomes, things were made easier for certain producers including Community producers. For example, a minimum price which in 1981 was at ECU 1,110 had now reached approximately ECU 1,650. This would not facilitate the adjustment of production by the producers themselves, and may even have given undue income to producers. As a consequence of developments in currencies, certain importing partners, developing importers in particular, had not been in a position to meet the bill. He considered it to be necessary to discuss matters and to take all relevant points into consideration and, as a matter of urgency, to carefully rethink the scope and efficiency of the Arrangement.

30. The representative of Uruguay said that his authorities held very constructive points of view as concerns the Arrangement. There were two things that could not be analysed alone without considering the matter as a whole. First of all, sales at prices below minimum prices on the part of one of the main trading partners had had a huge impact. Two hundred thousand tonnes had been sold to the USSR, and Rumania had asked for another 100,000 tonnes which could not be delivered because the other trading partners would not allow it. Apart from this, the United States had said that it would withdraw from the Arrangement. In making any attempt to reinforce the Arrangement, the question of what the United States would do, would remain a latent question. In view of the current situation, it was most difficult to try to analyse this subject matter. He recalled that the main objective of the Arrangement would continue to be that of stabilization of the market, and reiterated that the attitude of his Government was a positive one and it was ready and willing to participate in further efforts.

31. The representative of Egypt appreciated that this subject had been brought up, and he was grateful for having been reminded about the need to look at the Arrangement from the point of view of the interests of the developing countries. It might be necessary to have a better understanding of what was meant by reinforcing the Arrangement. What, in his mind, was important was the effectiveness or adequacy. He referred to views expressed by his delegation, before the Arrangement was adopted in 1979 and recalled the wording of the Ministerial Declaration of 1982. He was also referring to the decision of the

CONTRACTING PARTIES on action to be taken in pursuance to the Ministerial Declaration of 1982 regarding the MTN Agreements and Arrangements; namely, to invite each Committee or Council to examine in a special meeting the adequacy and effectiveness of their Agreement or Arrangement, and to examine the obstacles to participation which contracting parties may have faced, providing an opportunity to non-signatories to express their views in the discussion.

32. The Chairman suggested that this matter could best be addressed at the regular meeting of the Council in March.

United States withdrawal from the Arrangement

33. The Chairman referred to a letter from the United States dated 14 December 1984, which had been circulated to contracting parties in document L/5749. He invited the comments of the United States.

34. The representative of the United States reiterated what he had indicated at the preceding meeting of the Council; namely, that in view of the situation, the United States would undertake a review of whether or not it should continue to be a member of the Arrangement. The result of that review was reflected in the letter to the Director-General. He did not think he could add anything to the letter. He furthermore indicated that the United States would be on the market and would be competitive, but while doing so, it would not seek to disrupt the international trade or the prices for dairy products.

35. The representative of the European Communities expressed his regret as to the decision by the United States to withdraw from the Arrangement. He hoped that the intention not to disrupt the market was also a determined action. For the Community, the International Dairy Arrangement was part of the global agreements as they emerged from the Tokyo Round. In view of this, the United States commitment was of more than an indicative value, because it had been paid for, although it was difficult to spell out exactly what the Community had paid for this. There would now be an imbalance among the various rights and obligations between the United States and the Community. Furthermore, the Community representative understood that upon using the provisions of Article VIII,

paragraph 8(a), the obligation remained for the United States to stick to the obligations arising from this Arrangement at least between now and 13 February. In consequence, he considered that at least until February, there would be no imbalance between rights and obligations. He hoped that this intention expressed by the United States would go beyond sixty days. In any case, he would have some problem in considering the United States attitude, which he found unclear. He drew attention to the fact that even if the United States had the intention of abstaining from obligations arising from the Arrangement, this did not imply that the obligations of the United States under the General Agreement were no longer in effect. He reminded the United States that when selling dairy products with export subsidies, the United States must also respect the provisions governing this in the General Agreement. He also reminded about the concepts of equitable share and of price undercutting. Referring to a recent United States sale to Egypt, he said that the Community would not waive its rights neither under the Arrangement, nor under the General Agreement. He finally asked whether, after sixty days and when the United States withdrawal became effective, the United States would continue to participate in some way in the work of the Arrangement including the Protocols.

36. The representative of the United States replied that it would be exercising its rights under Article VIII of the Arrangement, because another party did not respect the obligations it had under the Arrangement. With regard to the last question by the Community, he did not believe that the United States would participate as an observer to the Arrangement.

37. The representative of Japan asked the United States to reconsider its decision to withdraw from the Arrangement. If the United States maintained the importance of the GATT regime, the United States should keep themselves inside the GATT. United States withdrawal could only produce a weakening of the GATT regime including the Arrangement. Under the present world market situation of dairy products, there existed extremely strong pressures to depress the market price and there was a real danger of destabilizing the market. It was the basic opinion of his delegation that only through the strengthening of the GATT regime could the order of world agricultural trade be maintained and improved.

His delegation believed in the importance of the GATT regime including the International Dairy Arrangement. While he could understand the United States dissatisfaction with the Community behaviour and the sales to the USSR, he could not understand the action of withdrawal. He considered that the United States should seek a solution in a spirit of conciliation through a free exchange of views; not go to such an extreme action as withdrawal. He had a strong apprehension that the withdrawal would lead to further instability in the world trade in dairy products. He asked the United States to reconsider its decision with a view to preventing turmoil in the world market for dairy products. At the same time, he sincerely urged the Community to show their sincere gesture with regard to the fundamental reform of its dairy policies and thereby contribute to strengthening the Arrangement. Although he recognized the difficulty involved in reforming the agricultural policy in general, not least facing this serious crisis of dairy products, he felt that further serious efforts were needed by the Community in order to recover and maintain the order in the international trade in dairy products.

38. The representative of Uruguay expressed his regret for the decision of the United States Government, but he understood the reasons for it, as the Community measures had effectively invalidated key provisions of the Arrangement. He hoped that the United States within this sixty days' delay would reconsider its decision. He fully shared the views that the United States must be very conscious of the fact that the decision which it had taken weakened the GATT as a whole, and not only the International Dairy Arrangement. He noted the United States intention not to disrupt the international trade in dairy products. He hoped that the Community was conscious of its responsibility in this field, something which was important not only concerning the decision of the United States, but concerning the very future of the International Dairy Arrangement.

39. The representative of Finland speaking on behalf of the Nordic countries in his turn also regretted the decision of the United States to withdraw from the Arrangement. The Nordic countries had considered and would continue to consider the Arrangement to be useful for the

stabilization of the international market for dairy products. He admitted that the International Dairy Arrangement had been facing serious difficulties lately. However, in the view of the Nordic countries, every effort should be made to restore and improve the situation. Countries should avoid taking any measures which could directly or indirectly contribute to the deterioration of the situation and imbalance. A well-functioning co-operation in the field of dairy products was one element in a wider effort to solve problems related to trade in agriculture more generally, in their view, yet another reason to avoid measures that could weaken the International Dairy Arrangement. They had stated several times that they attached great importance to the functioning of the Arrangement. With this in mind, they would like to express the hope that the United States, even if in the legal sense remaining outside the Arrangement, would avoid taking measures which would put countries bound by the Arrangement in a difficult position. They hoped that the United States could continue to co-operate with others in order to maintain prices at an equitable level, and that the United States could in the future in one way or another participate in common efforts to bring about more transparency. As for the Nordic countries themselves, they would continue to participate in the Arrangement and had no intentions of withdrawing from the Arrangement as long as it continued to function. On the contrary, in this situation, they were prepared to do their best to preserve the viability of the Arrangement, and they trusted that others would do the same.

40. The representative of New Zealand was cheered by the interventions which indicated that so many of the participants in the International Dairy Arrangement shared both the concern and disappointment that New Zealand had felt at the decision by the United States to withdraw, and also shared the conviction that the Agreement was worth maintaining. He also appreciated the determination to do as much as possible to restore the effectiveness of the Arrangement, to a position whereby it could continue to play an essential role in maintaining a reasonable stability in the international dairy market. His Government had made representations at a very high level to the United States Government and it was disappointing that the United States Government felt it necessary to go ahead with the notification to withdraw. He understood fully the situation that had given rise to this decision, as it had been a matter

of great disappointment to participants in the International Dairy Arrangement that the Community had breached the Arrangement by offering products below the minimum price before consulting other trading partners who would be much involved. Although the rescinding of the Community's regulation could not undo all the damage that had been done, the market still remained extremely sensitive and he did not feel that the response to that situation should be withdrawal from the Arrangement. The Community regulation had now been rescinded and he believed that it was necessary to work hard to restore both the stability of the international market and confidence in the Arrangement and its effectiveness. Although the background was quite familiar to him, he did not feel that the United States had adequately explained such an important decision. He considered this to be important not only in respect of dairy products, but to the programme of the GATT in general in agriculture. The United States action seemed to cause some confusion as to the approach taken by the United States with regard to GATT codes and arrangements. For this reason, he hoped the United States would reconsider its decision, from the perspective of a country which was anxious to see the maintenance of a stable and remunerative dairy trade. He felt that the indications from the United States as to the approach that might be adopted by the United States following the withdrawal to be mildly encouraging. He noted that it was not the intention of the United States to disrupt international dairy trade, a signal from which he derived some satisfaction. He found the export intentions signalled by the United States and the information provided on its own dairy situation, production and exports, i.e. that its export expectations for 1985 were given as virtually the same as for 1984, to be encouraging. This allowed him to hope that the United States would indeed continue to play a responsible role in the international dairy market. He furthermore hoped that the United States representative would transmit to his authorities the views expressed by delegations here, and noted that no other delegation had seen any merit in a United States withdrawal from the Arrangement. Indeed all participants had clearly supported the conclusion that was reached and registered in paragraph (6) of the Resolution and had underlined the importance of the Arrangement for world trade in dairy products reaffirming the need to pursue the objectives set for it. In the light of this, it should be recommended to the United States administration as a reason for

seriously reconsidering the decision that they had communicated. Even should it not be prepared to reconsider its position, he did hope that the United States could in fact participate as an observer. He felt that the model presented by Canada which regularly observed and participated constructively was one which might be mentioned, but only as a second choice. The first choice would be that the United States reconsider its position and withdraw its notification. He nevertheless felt that those who remained as members of the Arrangement would be making efforts to uphold and restore the credibility of it. New Zealand would be making further representations to the United States authorities, and he hoped that other governments would also express their views to the United States authorities in a constructive way, which would give real grounds for reconsidering the decision to withdraw. He also felt that there was a role for the Director-General of the GATT in this matter, as the position taken by the United States did have important implications for future work in the GATT and the status of GATT arrangements and codes. It would therefore be appropriate that the Director-General communicate with the United States authorities urging them to consider this general aspect as well, in addition to those aspects specifically related to the dairy trade. Finally he said that this was not the time for precipitate action, but rather for cool reconstruction of the Arrangement and its credibility, and he expressed the hope that the United States would share in the efforts along with other participants.

41. The representative of Switzerland expressed his regrets at receiving the notification of the United States, notably since this notification was received at a time when there were problems on the dairy products market, and efforts were being made to try to settle them by joint action. He also regretted this decision since the departure of a participant could itself be evidence of a disagreement, and even more so because the particular participant played a significant role on the international market for dairy products. The time had come for further reflection, to think in terms of the future of the Arrangement and its functioning, since it was true that in spite of accidents on the way, the main objective still remained. This objective must be pursued as far as possible, in the first place within the Arrangement, which had been set up for that purpose.

42. The representative of South Africa also regretted the United States decision. He believed that the strength of the Arrangement lay in the strict observance of it and in the number of countries actively observing its provisions. The last few months had been crucial in the international dairy sector, and if ever there was a time that the International Dairy Arrangement should operate effectively, it was now. South Africa maintained the belief that the Arrangement was an important instrument in the international dairy sector and that there was a need for all participants to respect fully its provisions. Even though he had understanding for the reasons therefore, withdrawal from the Arrangement would lead to a weakening not only of the Arrangement but also of the GATT system. He supported the Nordics in their request to the United States not to place participants to the Arrangement in situations which would make observance of the provisions of the Arrangement unduly difficult, and took satisfaction from remarks already made by the United States in this and other fora in this regard.

43. The representative of Austria, in his turn, regretted the United States decision, as this decision could have serious effects on the GATT system as a whole. He recalled that paragraph (7) of the Resolution said that the Committee noted that in the present situation, close co-operation among participants was more than ever necessary. As this Resolution had been adopted by consensus; namely, by the voice of the United States too, he hoped that the United States would reconsider the decision it had taken. He also fully supported the request of the Nordic countries, but he nevertheless reserved all the rights of his Government under the GATT system.

44. The representative of Australia felt that it was unfortunate that the United States felt itself bound to terminate its association with the Arrangement at this time, but he understood the reasons lying behind their decision and equally understood and sympathized with the frustrations which obviously had been among the factors leading the United States to take that attitude. He felt that the obligation now rested on those who remained within the Arrangement, of whom his delegation was one, and who wanted to make efforts to try and make it work. He hoped that the United States would not make that task more difficult. The real test would now be how those within the Arrangement would observe strictly its provisions in a way which would allow it to

function effectively. He felt it should be recognized that the tensions that existed within the Arrangement and which had led to this decision in some ways microcosmed the difficulties within the trading system as a whole, and within agriculture in particular, which were in essence the presence of endemic and critical surplus within major producing countries. He felt that until and unless those problems were addressed realistically and earnestly, it would be difficult to see how one could avoid tensions in the future in the Arrangement.

45. The representative of Argentina also shared the regrets that the United States had announced their withdrawal. He thought that it might, at a later date, be interesting to analyse the reasons which had led this country to take this measure. The causes included the general situation in the agricultural sector in general, not only the dairy products sector. It should be recognized that when getting near to the minimum prices on the international market, a stage was reached where the very validity, the efficiency, and the possibility for such an Arrangement to be a positive element, was going to be seriously discussed. Unfortunately, events developed too fast. Other participants had referred to certain problems of surpluses, which had been weighing on the international market for years, not only in the case of dairy products, but in the case of other products too. He felt it to be very important to analyse the causes, which in his view were structural causes which would have to be discussed in depth, in order to reach an agreement on the whole subject matter. It was necessary to make a renewed effort, more than in the past, to try and sail out of such a situation, as the credibility of the Arrangement itself might lead the United States to rethink about its participation. Like other participants, Argentina wanted to go on with the Arrangement, but without the United States participation, a very important part of the market for these products will not be represented. It was necessary to face this situation and to reflect in depth, notably for those who had a major responsibility in this market and in its problem.

46. The representative of Hungary shared the regret about the United States withdrawal from the International Dairy Arrangement. He hoped that the United States, despite its withdrawal would continue to co-operate with the participating countries in order to achieve the objectives of the Arrangement.

47. The representative of Romania also regretted the United States decision to withdraw from the International Dairy Arrangement. He considered the Dairy Arrangement to be a very important instrument resulting from the Tokyo Round. He shared the opinions presented by others to the effect that this decision would be leading towards a weakening of the Arrangement as well as a weakening of the GATT system in general. He also supported the request submitted to the United States Government to re-examine its decision.

48. The representative of Bulgaria added his voice to those who expressed their regret for the decision made by the United States. He understood the background for this decision but considered that it was an unfortunate fact that the United States took this decision. In his view, it was an extreme measure, which he considered would destabilize the whole system of the GATT. He shared the views and the analysis that there was a difficult situation in the dairy sector, in the field of agriculture and in the whole trading system. However, he considered that the stability would be put once more into a confused situation by the withdrawal of the United States from this Arrangement. That is why he expressed a sincere hope that the competent authorities of the United States would reconsider the decision.

Resumé

49. In closing the meeting, the Chairman said that the secretariat would as usual establish a report of the meeting and that he would submit a brief note on the meeting for circulation to contracting parties. This note (circulated as document L/5763) would confirm the following points:

The Council:

(a) took note of the statement by the European Communities regarding the abrogation on 8 December 1984 of Title II of Regulation (EEC) no. 2956/84, and of the statement that the EEC had contracted to sell approximately 220,000 tonnes of butter and butter oil exclusively to the USSR at prices above and below the relevant minimum export prices with deliveries to be effected not later than 30 June 1985;

(b) took note of the statement by the United States concerning a recent contract for the sale of 30,000 tonnes of butter and butter oil to Egypt;

(c) agreed that participants should henceforth notify all relevant elements in accordance with Article 4 of each of the Protocols, and to the extent possible on the basis of the format to be circulated by the secretariat;

(d) agreed that in terms of the Resolution of 16 November 1984 that all participants should continue to exercise the greatest restraint in making their sales in the current situation and to take fully into account the interests of other participants, in order to sustain the viability of the International Dairy Arrangement, having particular regard to the delicate balance between the disciplines contained in the Arrangement and the Protocols and the provisions for safeguard and emergency action;

(e) took note of the statements by participants that they would continue to fully support the International Dairy Arrangement and that they would co-operate to ensure that the full application of its provisions was restored at the earliest possible date;

(f) noted with regret that the United States had, on 14 December 1984, given notice of its intention to withdraw from the International Dairy Arrangement in accordance with Article VIII:8(a) of the Arrangement. It also noted the statement by the United States representative that the United States, while remaining competitive, would not seek to disrupt international trade in, and prices for, dairy products;

(g) strongly urged the United States to reconsider its decision to withdraw from the International Dairy Arrangement or, as an alternative, to consider participation as an observer in the International Dairy Arrangement and its Protocols. In this regard, the Director-General of the GATT was requested to use his good offices as appropriate.

The Council agreed to hold a further special session at the end of January 1985 to review the situation in the context of the 16 November 1984 Resolution and to review the situation with regard to the United States decision to withdraw under Article VIII:8(a).