

International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

Twenty-Fourth Session

Draft Report

Introduction

1. The Committee of the Protocol Regarding Milk Fat held its twenty-fourth session on 16-17 December 1985. At the outset the Committee noted with regret the absence of Mr. Barsuglia (EEC) who was indisposed and conveyed its best wishes for his early recovery. The Committee also welcomed new delegates.

Adoption of the agenda

2. The Committee adopted the following agenda:
1. Adoption of report on the twenty-third session
 2. Information required by the Committee
 3. Sales under derogations
 4. Review of the market situation for products covered by the Protocol
 5. Problems facing butter trade
 6. Adjustment of minimum prices according to exchange rate fluctuations
 7. Adoption of report to the Council
 8. Date of next session

Adoption of report on the twenty-third session

3. The Committee adopted the report on its twenty-third session. This was distributed as document DPC/F/39.

Information required by the Committee

(a) Replies to Questionnaire 2

4. The Committee reviewed the replies to Questionnaire 2 and requested participants who had not communicated such information in respect of the third quarter of 1985 to do so without further delay. They were also requested to submit information regarding the fourth quarter of 1985 by 14 March 1986 at the latest.

(b) Summary tables

5. The Committee reviewed the summary tables based on information provided by participants in Tables A and B of Questionnaire 2 in respect of milk fat. The Committee took note of document DPC/F/W/21.

(c) Other information

6. The Committee considered the statistical information collected by the secretariat, on its own responsibility, on the dairy market situation in the United States, in particular, more recent data on their trade, including the food aid operations. Based on national sources, the data was drawn up by the secretariat to facilitate more broad-based discussions in the Committee of the international market situation.

Sales under derogations

7. The Committee also considered the additional information provided by Australia, New Zealand, the EEC and the Nordic countries regarding sales of butter under the Resolution of 16 November 1984 (DPC/13). This information had been circulated in documents DPC/F/W/20/Add.1, DPC/F/W/19/Add.1 and DPC/W/50/Rev.2. In reviewing this information, some participants urged the need for greater transparency and more

detailed information. In reply to a question, the representative of the EEC explained that exports of "aged" and "fresh" butter totalling 222,000 metric tons had been delivered to the USSR by June 1985. Some delays were caused due to the break out of the porcine plague in Belgium, making it necessary to raise the required quantities elsewhere in the Community, but all quantities had been effectively sold and shipped by the end of May 1985. It was agreed that the Register of Sales (DPC/W/50/Rev.2) should be revised taking account of the clarifications provided.

8. No sales were reported to have been made under the May 1985 Decision of the Committee (DPC/F/35).

Review of market situation for products covered by the Protocol

9. The representative of Switzerland indicated that deliveries of milk in the 10 month period between January and October 1985 were 3.2 per cent lower than in the same period of last year, and now stood at the same level as in 1983. Forecasts for 1986 showed that deliveries would remain static at the 1985 level. Certain modifications in the dairy quota system and measures had been adopted to effectively control surplus production and to impose higher penalties on those who exceeded given quotas. Butter production during the third quarter of 1985 amounted to 8,700 tons, while imports amounted to about 20 tons. Total domestic consumption aggregated 10,000 tons. Prices remained unchanged. Forecasts for the fourth quarter did not show any significant change in production and consumption levels of last year, but imports were expected to be 4,000 tons in the fourth quarter of 1985.

10. The Swedish delegate informed that milk deliveries in 1985 at 3.6 million tons were 3 per cent lower than the level of 3.7 million tons in 1984. In 1986, they were expected to fall further to 3.5 million tons. Consumption of fresh milk in 1985 was also 1 to 1.5 per cent lower, and was expected to be further reduced in 1986. As regard the production of butter, he indicated that 1985 total would be almost 9 per cent lower than in 1984 and the downtrend would continue in 1986. Consumption of butter in 1985 was expected to be 6 per cent lower, but consumption of "Bregott" was likely to be 4 per cent higher.

As against total exports of 14,900 tons in 1984, only 13,400 tons would be exported in 1985. Average export price was reckoned to be US\$1,178 per ton/f.o.b., although an offer below the minimum price was received by a businessman in Sweden. In response to an Australian question whether a definite offer was made or was it merely a device to push prices down, he expressed his inability to provide more details.

11. The delegate of Norway stated that milk deliveries during September-October 1985 period were 4.7 per cent lower compared to their level in the corresponding period of the previous year. This was due to a parallel decline of 32 million litres in milk production compared to the 1984 level. Measures to curb milk production were likely to be continued in 1986. Speaking of butter production, he said that the level in the third quarter at 4,051 tons was 8 per cent smaller than in the corresponding period of the previous year. Output in the fourth quarter was expected to drop further as a consequence of reduced milk deliveries. Stocks of butter were, however, significantly higher at 5,500 tons on 1 October 1985, and exports at 2,850 tons were only 64 per cent of the 1984 level of 4,405 tons.

12. The representative of Finland spoke of the Finnish two-price system which had originally been adopted as an ordinary one-year tax bill but was expected to be continued in one form or another in the future. As a result of the adoption of this system together with some other measures to contain milk production, milk deliveries to dairies had been substantially reduced. In the ten-month period from January to October 1985 milk deliveries were 4 per cent lower than those in the corresponding period of the previous year. Total milk deliveries estimated for 1985 were 2.81 million litres and were expected to be 1 to 2 per cent smaller in 1986. Butter production in 1985 was estimated to be around 73,000 tons and in 1986 about 72,000 tons which gave a surplus of 17,000-18,000 tons for 1985 and a similar quantity for 1986. The Government had earmarked about 15,000 tons for exports. Average export price in the third quarter of 1985 was US\$1,010 per ton/f.o.b. In reply to the EEC's question whether Finland was reportedly seeking important export contracts from the USSR, he elaborated that his country had traditionally stable trade links with the USSR and therefore such exports were not unusual. In 1986 his country was planning to export 8,000 tons to the USSR, which could hardly be considered exceptional when compared to exports in the past.

13. The representative of South Africa disclosed that milk production in his country remained unabated, as a result of which production of all dairy products increased in the third quarter of 1985, causing some concern. Output of butter in the third quarter of 1985 at 4,487 tons was almost 44 per cent higher than in the corresponding period of the previous year. Domestic consumption, on the other hand, was exceptionally low, leading to a serious increase in stocks which stood at 6,500 tons at the end of September 1985.

14. The delegate of Poland regretted the delay in the submission of information by his country. He was, nevertheless, in a position to make some tentative comments. Milk production during 1985 had been reduced by about 4 per cent to a level of 11 billion litres, as compared to its level in 1984. Output of butter at 120,400 tons in the first half of 1985 was about 7 per cent less than in the corresponding period of last year, and the down trend seemed to have continued in the second half of 1985, showing a net decline of 2 to 3 per cent for the whole year. Consumption remained unchanged and stocks had been reduced. There were no exports of butter during 1985.

15. The representative of New Zealand said that the dairy industry in her country was working on the basis of processing 325 million kgs. of milk fat during the season. This compared with the 332 million kgs. of milk processed in 1984, represented a decrease of 2.2 per cent. Currently, production was running 1 per cent above the level of last year. The situation with regard to feed was not good in a number of regions and the seasonal peak had been passed. Assuming a return to normal weather conditions and with milk flow dropping rapidly more recently, overall milk production for the season was expected to drop as had been forecast earlier. As regards production of butter in the third quarter of 1985, the level remained above that of the corresponding period of last year, and this was reflected in higher stocks. Production of butter and anhydrous milk fat for the season as a whole, however, was likely to be lower than last season, in line with the projected decline in milk production and the anticipated slight increase in the production of other fat products such as whole milk powder and cheese. Commenting on the international butter market situation, she observed that it remained difficult with few

opportunities for significant sales. In the prevailing circumstances, many suppliers were obliged to hold exceptionally large levels of stocks and continued discipline was therefore necessary to maintain prices at or above the GATT minimum. The general price level for butter was in the range of US\$1,150-1,200 per ton/f.o.b.. The New Zealand Dairy Board had, however, finalized arrangements for its traditional levels of butter sales to "Prodintorg", via an intermediary, at the GATT minimum. She, however drew attention to the fact that the prices which could be realized in Soviet market were influenced by the major disposal sale carried out by the Community a year earlier, and the possibility of a further large sale of old butter in terms of the derogation agreed last June. In these circumstances, pressure to sell, at prices below the GATT minimum must be resisted. With regard to anhydrous milk fat, she said that prices had remained down in the range of US\$1,200 to US\$1,300 per ton/f.o.b., despite the general strengthening of prices for other products induced by the upward movement in the United States dollar. This included prices from the EEC also, where the costs of manufacturing anhydrous milk fat direct from fresh cream had enabled Community traders to achieve export prices well below the levels indicated by theoretical calculations based on the intervention price of butter. At the remark by the EEC spokesman that New Zealand's production of milk was progressively increasing and that they had sold butter and butter oil exclusively at the minimum price level, the representative of New Zealand said that normally milk production followed a definite seasonal pattern and peak was reached in October or November. As far as price was concerned, most of the sales were made above the GATT minimum and only exceptionally some sales took place at that level. In reply to another question what quantities of butter were sold to the USSR, the representative said that around 40,000 to 80,000 tons a year were sold, and New Zealand had to look for other markets when the access to the EEC market had progressively decreased. The USSR was a significant market, which imported from New Zealand 43,855 tons of butter in 1981, 78,000 tons in 1982, 22,000 tons in 1983, 25,000 tons in 1984 and about 26,200 tons in 1985. In 1986, New Zealand expected to export about 25,000 tons to that market.

16. The Hungarian delegate said that butter production in the first nine months of 1985 had decreased by more than 7 per cent compared to the level of the corresponding period of 1984. While imports increased to a level of 1,800 tons, exports had decreased from 3,750 tons in the first nine months period of 1984 to 690 tons in the same period of 1985. Domestic consumption was, however, slightly up during this period. Average export price in the third quarter of 1985 was US\$1,200 per ton/f.o.b.

17. The delegate of Japan informed that milk production in 1984 at 7.2 million tons was 1.6 per cent higher than in the previous fiscal year. Of this total, 4.3 million tons was milk for drinking purposes, representing an increase; and 2.8 million tons milk for processing, showing an increase of 2.2 per cent over the level of the previous year. In 1985, milk production during the April to September period showed a further increase of 3.4 per cent. Imports of all dairy products during 1984 (on milk equivalent basis) were 4 per cent higher than in 1983. In the first six months of 1985, imports were larger than in the corresponding period of 1984. In particular, imports of skimmed milk powder increased by 18 per cent and those of natural cheese by 6.3 per cent. In regard to butter production, he mentioned that in 1984 the level at 80,126 tons was 5.4 per cent higher than in 1983. However, the domestic market for butter continued to be weak. Imports remained stable at 2,000 tons as in the previous year. In reply to a comment by the observer of OECD, he said that there was not a serious surplus problem since the producers followed definite Government guidelines in respect of production levels. As against domestic consumption of 8 million tons (milk equivalent), domestic supplies amounted to 7 million tons and about 1 million tons was imported, mainly in the form of skimmed milk powder and cheese.

18. The representative of Argentina apologized for the delay in the supply of information in reply to Questionnaires 1 to 3. He was, however, in a position to indicate the situation in the first quarter of 1985. Stocks of butter were 3,800 tons at the end of March 1985, production at 7,400 tons in the first quarter of 1985 was 12 per cent smaller than in the corresponding period of 1984. While there were no

exports, imports in the second quarter of 1985 amounted to only 100 tons. Consumption of butter at 5,800 tons in the first quarter was almost 1,000 tons less than in the same period of 1984.

19. The representative of Australia indicated that milk production in the third quarter of 1985 at 1,478 million litres was 0.1 per cent down on the level of 1,493 million litres in the corresponding period of the 1984/85 season. Seasonal conditions for the months of October and November were optimal for dairying. Given a continuation of such favourable conditions, milk production for 1985/86 could reach 6,150 million litres, showing an increase of 1.9 per cent compared to 1984/85 production of 6,038 million litres. On a calendar year basis, milk production was estimated at 6,086 million litres (6,255,000 tons) in 1985 as compared to 5,946 million litres (6,111,000 tons) in 1984. Expressing his deep concern at the resurgence of milk production and an expected record output in the United States in 1985, he said that unless new farm legislation was effective in restraining production quickly it was expected to have a destabilizing effect on world trade, particularly trade in skimmed milk powder. USDA was currently forecasting milk output of 65.0 million tons in 1985 as against previous records of 63.4 million tons in 1983 and 61.4 million tons in 1984. A further increase to 67.1 million tons was forecast for 1986. In regard to Australian butter production (including anhydrous milk fat) he said that the output in the third quarter of 1985 at 24,400 tons was 5.1 per cent below the level of 25,700 tons in the corresponding period of 1984, mainly due to increased production of cheese and whole milk powder early in the season. More recent trends suggested a swing back to butter/skimmed milk powder to the extent that the annual butter/anhydrous milk fat production estimate of 116,000 tons was likely to be achieved in 1985/86. Domestic consumption of butter/anhydrous milk fat was expected to increase marginally in 1985/86 to 62,000 tons from 61,700 tons in 1984/85. Export availability for 1985/86 was expected to be 73,000 tons, given objective closing stocks of 10,000 tons, of actual exports of 55,000 tons in 1984/85. Commenting on the world situation he expressed his pessimism about the market outlook until stocks could be run down mainly through production restraint, given continued weak international demand. In his view, continuing high international butter

stocks in the face of limited demand, were likely to result into depressed prices for butter/anhydrous milk fat during 1985/86. Prices of Australian sourced butter had remained close to the GATT minimum of US\$1,000/ton, while anhydrous milk fat prices were within the range of US\$1,250 to US\$1,290 per ton.

20. The spokesman of the EEC stated that butter and butter oil production in 1985 showed a net decline of 6.5 per cent compared to 1984 levels, when the output was 7.8 per cent smaller than in 1983. Thus, in the two years together, butter output declined by a net 315,000 tons, due mainly to production restraints. There was practically no increase in consumption in spite of special sales at reduced prices. The EEC, for example, sold under special programmes 229,000 tons in 1983, 333,000 tons in 1984, 283,000 tons in 1985 and had planned a sale of 330,000 tons in 1986 including sales of cooking butter at half the normal price. However, the stocks of butter had not declined. Public stocks on 12 December 1985 at 994,561 tons, together with private stocks of 159,772 tons gave a total of 1,154,333 tons. Stocks at the end of 1985 were expected to be at least 150,000 tons higher than at the end of 1984, reflecting a slight decline in consumption as well as lower butter exports totalling 133,000 tons to the USSR in 1985 under the November 1984 Resolution. If exports to the USSR and sales under special programmes were excluded, exports would show a net decline of 50 per cent over the level of 1984/85. The situation with regard to butter oil was slightly better since the decline totalled only 6 per cent after deducting sales to the USSR under the same programme. The EEC was pessimistic regarding export possibilities owing to the fact that practically no sales had been made in the past several months. Furthermore, substantial sales were made through the "open window" at less than the minimum price - US\$1,000. The EEC believed that the price of US\$1,300-1,350 was not realistic. The EEC f.o.b. offers were far above those of others and therefore some necessary adaptations had to be made. As a result of these adaptations and due to a fall in the value of the US dollar, the EEC offer price for butter ranged between US\$1,100-1,120 per ton/f.o.b. It was therefore correct to say that the price level on the world market was at the minimum price level and potential buyers on the world market were not interested in buying the Community butter at the present price levels. As regards butter oil,

the price level was US\$1,400 per ton/f.o.b. This was not the "intervention price", but the "real market price" which was normally below the intervention price. He further pointed out that the Community had not made any firm contracts to sell old butter at below the minimum price. Certain traders were currently discussing with India the possibility of sales, notwithstanding the lurking fear that such imports would have an adverse effect on India's domestic dairy development. The possibility of sales to Pakistan and to the USSR was also being explored. In reply to a comment by the New Zealand delegate that exports to the USSR were not special but a regular feature, he reiterated that the USSR was not a dependable outlet for the Community butter and some other traditional markets in the Mediterranean region had also been lost lately. As a consequence, the EEC was holding bulk of the world stocks of butter. In reply to another question by the representative of Australia whether the current US\$1,000 per ton/f.o.b. was the realistic price for the USSR, he made it clear that there was no free market for butter and therefore impossible to obtain realistic prices. Prices were often made up of exaggerated shipping and packing costs and some other uncertain elements and therefore could not be taken on their face value. What was important in the case of the EEC was that enough offers had been made at the minimum price level. The EEC was equally concerned at an unexpected global increase of 1.6 per cent in 1985 milk production and an increased level of production and stocks in the United States; both these developments were likely to influence the minimum price level.

21. Outlining the current dairy situation, the observer of Canada reported that total farm sales of milk and cream for 1 August 1984 to 31 July 1985 period were estimated to be 74 million litres, or fractionally above the previous year's total. The 1985-86 dairy year was expected to be one of continued stability and the forecast for the 1986-87 dairy year was not significantly different. Domestic requirements for industrial milk were not expected to change significantly and the demand for fluid milk was expected to increase by 1 per cent in the current dairy year. Assuming continued use of the return adjustment formula, any change in target return for industrial milk was not likely to occur in the coming 12 month period. The two major

components of the formula were the Canadian Consumer Price Index and feed prices. The Consumer Price Index was expected to rise about 4 per cent in 1985 and 3.3 per cent in 1986. Expected decline in grain and soya bean costs, however would offset the increase in the Consumer Price Index. Turning to the butter situation, he mentioned that consumption during 1984-85 dairy year at 104,000 metric tons was down from 108,000 tons in the previous year. Production in the third quarter added to 25,694 metric tons. Production in the next dairy year was projected at less than 96,000 metric tons, given the continued considerable price difference between butter and its substitutes combined with consumer concern over dietary fat. Domestic consumption was expected to decline further in 1985-86. Stocks at the end of September aggregated 27,512 metric tons and by end-October were 25,300 metric tons. These levels were close to normal stocks for domestic requirements. The end-year level was expected to be 23,000 metric tons. The Canadian Dairy Commission had no plans to sell butter on the export market in the near future.

22. The observer of the Economic Commission for Europe briefly informed the Committee that milk production in the USSR was likely to increase by 2 per cent in 1985, due mainly to higher milk yields. Butter output was expected to go up by 1 per cent to a level between 1.6 to 1.7 million tons, and cheese production was likely to go up by 2 per cent during 1985.

23. The observer from the OECD shared the concern expressed by the Australian delegate at the substantial increase in the United States milk production since the end of the diversion programme in March. An expected increase of 6 per cent in 1985 and a relatively smaller increase in 1986 was likely to have implications for other OECD countries. These figures were based on the assumption that the present support levels were not changed. The situation was, indeed, one of serious concern. The figures provided by the GATT secretariat on an annual basis, however, dramatized the situation since the enormous increase shown in US butter production in the third and fourth quarters since after the end of the diversion programme did not correctly indicate the extent of the overall increase in the whole of 1985. The

increase was expected to amount to only 12 per cent and not 20 per cent or more as indicated by quarterly figures. The situation, nevertheless, remained difficult due to increased production.

24. The spokesman for the EEC appreciated the comments made by the observer of OECD regarding the situation of milk production in the United States. Australia had also alluded to the resurgence of milk production since the end of the diversion programme in the United States. He agreed that it would be useful for the Protocol Committee to closely monitor the trends in dairy production even in the non-participating countries. In the Meat Market Analysis Group, where Australia had proposed to send the same questionnaire for information to all GATT member countries who were not signatories or observers of the Meat Arrangement, the Community had taken the view that most of the producers were members of the Arrangement and that the large importing countries were not even members of the GATT and therefore there could be some reluctance on the part of such countries to supply the required information. In the case of the Dairy Arrangement, however, the fact was that United States being one of the largest producers in the world, was outside its fold and, in the absence of information on its dairy situation, the review of the world dairy situation was rather distorted and incomplete. He was, therefore, wondering why Australia would not make that kind of proposal for dairy products so as to collect information on all contracting parties even though they were not members of the Dairy Arrangement.

25. The Australian delegate expressed his surprise at the view of the Community that again they should take the initiative of making such a proposal. He would, however, be quite prepared to support any such proposal coming from the EEC.

26. The representative of New Zealand remarked that when the United States was a member of the International Dairy Arrangement they had some difficulty in supplying information in response to the questionnaires. Being outside, it would be even more difficult for them to furnish the necessary information.

27. The Chairman intervened to suggest that the secretariat would reflect upon this problem and make some concrete proposals at the March meeting of the Protocol Committee.

Problems facing butter trade

28. The Chairman drew attention to the invitation addressed by the Council to the Committee in September 1985 to consider various possible steps to resolve the critical situation facing the butter trade. He invited the participants to provide information on measures adopted to alleviate the current butter situation.

29. The representative of New Zealand said that while there was a major question mark regarding the situation in the Soviet Union, his country viewed the overall situation in which there was no conceivable pattern of demand, at any price remotely close to the agreed minimum, that can match available world supplies. Looking at the butter market, one failed to get the impression that it was an efficient market, determined by supply and demand, where the market cleared at a certain price on the basis of economic fundamentals such a shifts in relative costs, profits and marginal utility on the demand side. It was a market determined more by political considerations than economic considerations. One of those political constraints was the GATT minimum price level. Dealing with a normal market, it would be totally irrational for efficient countries like New Zealand to espouse the concept of such a policy instrument. It would, on the contrary, seek a free market, where price competition would permit unhindered play of the principle of comparative advantage. It was, however, unfortunate that we were living in a different world and were supporting the idea of a political device to put some floor under the market. We were continuing to have an extremely difficult management problem for a foreseeable future. It was encouraging that the Community was dealing earnestly with the existing structural problem by reducing their butter production by some 315,000 tons in two years; this, however, did not solve the global management problem. The EEC stocks of butter were 150,000 tons higher at the end of 1985 compared to their previous year level, inspite of very large surplus disposal operations undertaken in the year before,

showing that a massive overhang of stocks was likely to persist. His country believed that even if the EEC was successful in making another large sale to the Soviet Union next year the problem would not disappear. It would persist until such time as production restraints began to influence stock levels and efforts were seen to be sustained by the international market. In reality this was not the case. Under the existing circumstances, the only policy conclusion that could be drawn was that the credibility of the Arrangement could be maintained only by adhering to its economic provisions and ensuring that the politically determined market was not cleared at prices detrimental to the efficient producers.

30. While expressing his full support for the observations made by New Zealand, the EEC spokesman admitted that the dairy situation was quite serious. The Community had taken numerous measures to restrain production, while certain other countries had continued to increase their levels of production. If other countries did not take adequate steps to alleviate the situation, producers in the EEC would also make restraints difficult. The Community stocks had tended to increase partly because the milk content in its exports had been gradually reduced.

31. Taking note of the views expressed and the various measures taken by the EEC to increase domestic disposals, the representative of Australia considered that the only longer-term solution to the problems facing the world butter market was for those countries with subsidized dairy industries to reduce both their subsidies and production levels to the stage where a satisfactory balance between demand and supply could be achieved. It was unrealistic for such countries to base their production, support and trade policies on considerations which ignored the trade consequences of such policies for other major exporting countries. Equally, it was necessary to allow the implications of international commitments to flow through fully in the extent to which they influenced the substance of those other policies. Hence, it was necessary that all members strictly observed the IDA minimum prices and other provisions and ensured the transparency of the market. Australia had constantly received reports and allegations of sales below the IDA

minimum prices for milk fat by both members and non members. In some instances, it had appeared that there was a concerted campaign by buyers and traders to destabilize the IDA. Allegations were heard about a range of members who had sold butter to the USSR below the IDA minimum. Other members heard allegations that Australia had made sales below the minimum price level. However, all that had been denied after official investigations. Australia was seriously concerned that unless the current market destabilizing activities were resisted by all members there was a real danger of a collapse of the IDA. If IDA provisions continued to be breached with the cognizance of the responsible government, other members were not likely to follow the minimum price disciplines. In his view, the major task confronting the IDA was to restore and maintain the confidence of the market in the IDA minimum price disciplines and the ability and the determination of members to enforce that discipline. Unless the market accepted the IDA as an effective trade discipline, the IDA was likely to be under constant attack and individual participants would remain under constant pressure to breach the Arrangement. Australia had a domestic legal obligation to investigate all breaches regarding the IDA; but this could only be done if certain details of the transactions in question were available, such as, buyer, seller, quantity, price, timing of sale or shipment. It was for that reason that Australia had earlier circulated a proposal (DPC/W/52) asking members to give details of measures in reply to Questionnaire 5 for ensuring observance of the IDA minimum prices. Such reporting was likely to make a significant contribution towards restoring the confidence of the market in the IDA price disciplines by increasing their transparency and the credibility of members commitment to those disciplines. Australia expected a substantial debate on this proposal at the March meeting of the IDA. In the meantime, Australia had circulated a description of Australia's observance of measures as an addendum to its reply to Questionnaire 5. Finally, he urged other members to report on their own measures before the next meeting and, where members had reservations about their inclusion in Questionnaire 5, the reports could give their reasons for that.

32. The Committee took note of the different points of view and decided to pursue the matter at its next regular meeting in March 1986.

Adjustment of minimum prices according to exchange rate fluctuations

33. In resuming the discussion on this question at the joint meeting of the three Protocol Committees, the Chairman recalled the decision of the Committees on 30-31 May 1985 to discuss the problem of the adjustment of minimum prices according to fluctuations in the United States dollar exchange rate. A paper on this subject was prepared by the Australian Dairy Corporation at the request of the Australian Government and circulated in document DPC/W/46 on 14 June 1985. In DPC/W/46/Add.1, Australia later reconfirmed its position on this subject. In a joint meeting in September 1985 a comprehensive but inconclusive discussion took place and some interesting observations were made by several participants. In supporting the Australian proposal, the representative of New Zealand had undertaken to provide an outline of an explicit statement that the Committees could make in regard to the interpretation of Article 3:3 of the Protocols to the International Dairy Arrangement. This was done in document Spec(85)63, dated 16 December 1985. He asked participants if they had any additional useful ideas on this subject.

34. Elaborating his country's views on this question, the delegate of New Zealand repeated what he had said earlier at the September meeting that the Committees could adopt a more explicit undertaking that exchange rate movements would be taken into account whenever the level of minimum prices was reviewed. In interpreting Article 3:3, the participants could agree that the words "... the operation of the Protocol ..." in Article 3:3(a) and "... other relevant economic factors of the world market ..." in Article 3:3(b), were understood to include, inter alia, movements in the value of the reference currency.

35. The EEC spokesman wished to reserve his position on this question until the time the New Zealand document was thoroughly examined. At the outset, he could only say that effort was being made to make something explicit that was already implicit in the Arrangement. He asked New Zealand if they had any specific difficulty in following the existing levels of minimum prices.

36. The representative of New Zealand responded in the negative and made it clear that his authorities were not recommending the suspension of minimum prices, they were only suggesting that exchange rate fluctuations should be considered as one important element in any review of the minimum prices. A satisfactory solution to this problem was more than desirable at this stage when the situation had not deteriorated too much. In any case, his country had no difficulties in enforcing the minimum prices, but certain other countries did have some problems.

37. The delegate of South Africa supported New Zealand's proposal and believed that a clear interpretation of Article 3:3 was more than desirable.

38. The delegate of Japan informed the Committee that this problem was being carefully examined by his authorities and therefore he could not take a more definitive position at that stage. He would, however, be in a better position to say something at the nexting meeting of the Committees in March.

39. The delegate of Poland appreciated the New Zealand proposal, which provided a means to fight unstable monetary conditions. He was therefore in favour of discussing it in a positive way.

40. The representative of Switzerland also thanked New Zealand for its proposal and asked the EEC, who had originally favoured such an examination of the problem, to come up with positive ideas. The matter could be more meaningfully discussed in the Council with a view to finding a solution acceptable to all participants.

41. The Nordic countries also endorsed this proposal and considered it as reflecting the views of several delegations who had spoken in previous meetings.

42. The delegate of Argentina said that more time was needed to consider this important question. The intention behind the proposal probably was to make the interpretation of Article 3:3 more clear, but

in his view it did not require any such clarification. The matter could, nevertheless, be further discussed to reach a common understanding.

43. Concluding, the Chairman noted that the discussion was useful and participants could revert to this question at the March meeting after further reflection. The participants fully recognized the importance of exchange rates in the determination of the minimum prices and felt that a satisfactory solution acceptable to all parties was highly desirable.

44. The Committees took note of the New Zealand communication and decided to continue discussion of the matter at their next regular sessions and likewise to study in that framework the New Zealand proposal.

Report to the Council

45. Pursuant to Article VII:2(a) of the Arrangement and in accordance with Rule 22 of the Rules of Procedure, the Committee adopted its report to the Council. This report was distributed in document DPC/F/40.

Date of next meeting

46. The next session of the Committees will be held on 17-18 March 1986, subject to confirmation by the secretariat. The session of the Protocol Regarding Certain Milk Powders will be followed by the session of the Committee Regarding Milk Fat and then the Committee Regarding Certain Cheeses.