

# GENERAL AGREEMENT ON

## TARIFFS AND TRADE

RESTRICTED

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### International Dairy Arrangement

#### INTERNATIONAL DAIRY PRODUCTS COUNCIL

##### EIGHTEENTH SESSION

##### Draft Report

Chairman: Mr. T. Groser

1. The International Dairy Products Council held its eighteenth session on 23 March 1988.
2. 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
  - D. Evaluation of the situation in, and outlook for, the world market for dairy products
  - E. Commodity description and coding (Harmonized System)
  - F. Improvement of working methods
  - G. Note by the Chairman on the present meeting
- A. Election of Chairman and Vice-Chairman
3. In accordance with Rule 2 of the Rules of Procedure, the Council re-elected Mr. T. Groser (New Zealand) as Chairman for 1988/89 and Mr. P. Huhtaniemi (Finland) as Vice-Chairman.

B. Admission of observers under Rules 11 and 14 of the Rules of Procedure

4. The Council invited the representative of Panama in the capacity of observer, to follow the proceedings of the session, in conformity with Rule 11 of the Rules of Procedure.

5. The Chairman recalled that at its eleventh session held in September 1984, the Council had agreed to extend an invitation of a permanent character to the Economic Commission for Europe, FAO, OECD and UNCTAD. Accordingly he invited these organizations to participate in the present sessions as observers. Furthermore, an observer for the IMF was invited to attend the session, in conformity with Rule 14 of the Rules of Procedure.

C. Review of the functioning of the Arrangement

Reports of the thirty-second and the thirty-third sessions of the Committees of the Protocols

6. The Council carried out a review of the functioning of the Arrangement as required by its Article IV:1(b). For this review the Council had before it the reports of the thirty-second sessions of the Committee of the Protocol Regarding Certain Cheeses (DPC/C/49), the Committee of the Protocol Regarding Certain Milk Powders (DPC/P/51) and the Committee of the Protocol Regarding Milk Fat (DPC/F/53). Full reports of these meetings had been approved recently and circulated as documents DPC/C/50, DPC/P/52 and DPC/F/54. Concerning the thirty-third sessions of the Protocol Committees, the Chairman of the Committees presented an oral report to the Council.

7. The Committee of the Protocol Regarding Milk Fat, the Committee of the Protocol Regarding Certain Cheeses and the Committee of the Protocol Regarding Certain Milk Powders held their thirty-third sessions consecutively on 21 and 22 March 1988.

8. The Committees were required by the Rules of Procedure to elect their Chairman and Vice-Chairman. Mr. Pekka Huhtaniemi was re-elected as Chairman of the three Committees for 1988/89; no election of the Vice-Chairmanship was held it being understood that this function could be assumed by the Chairman of the Council if necessary.

9. After examining the replies to the questionnaires, the Committees considered the market situation for the products covered by each of the Protocols. Some information and comments regarding milk production and dairy policies given in the Committees would be reflected in the report of the meeting of the International Dairy Products Council.

10. The Committee of the Protocol Regarding Milk Fat noted that world butter production had fallen by 400 thousand tons from 1986 to 1987, reaching a total of 7.4 million tons, almost down to its average level in 1981-83. This was mainly due to the decrease in Community production. However, production was significantly lower in all regions, except in the USSR. These developments reflected a reduced availability of milk for processing and a low profitability of butter production. Butter production was expected to decline further in 1988.

11. Available information on consumption of butter indicated very little change on average and prospects for 1988 confirmed a stagnant trend.

12. The world market for butter and anhydrous milk fat remained fragile throughout 1987. World exports which in 1986 had fallen to 700 thousand tons increased sharply to around 950 thousand tons in 1987. Significant quantities were disposed of domestically and through sales under derogation from the price provisions of the Arrangement. However, such sales together with substantially reduced production resulted in an appreciable reduction of stocks providing a hope for improvement in the butter market in 1988.

13. World stocks of butter at the end of 1987 were down half a million tons with a further drop expected for 1988. The decrease was mainly due to the fall in stocks held by the EC which decreased to 958 thousand tons at

the end of 1987 as compared to 1.37 million tons at the beginning of the year. In early 1988, the decline continued and on 10 March 1988, public stocks held by the EC were at 678 thousand tons, or 38 per cent lower than one year earlier.

14. Regarding sales under derogations, the Committee noted that the EC had completed all deliveries of butter sold under the Decision adopted on 31 May 1985 (DPC/F/35). The Committee also took note of additional information furnished by Australia (DPC/F/W/34) and New Zealand (DPC/F/W/35), concerning sales related to the Decision of 2 June 1987 (DPC/F/48) and the agreement of 15 December 1987 (DPC/F/53).

15. The Committee examined a request by the EC for a derogation under Article 7:1 of the Protocol concerning sales of butter oil to Bangladesh. It took the following Decision (distributed as document DPC/F/55):

The Committee of the Protocol Regarding Milk Fat, acting in conformity with Article 7:1 of the Protocol, authorizes the European Economic Community to export butter oil and/or ghee, manufactured from butter aged at least 18 months out of public intervention stock to Bangladesh at a price inferior to that set out in Article 3 of said Protocol.

The quantity contracted will be around 50,000 tonnes of butter oil and/or ghee.

Exports shall be completed by 31 December 1988.

The European Economic Community shall take all possible steps to ensure that the product concerned is finally consumed in the country of destination.

16. The representative of Uruguay did not join the consensus on this Decision, but did not formally object to the granting of the derogation. The Committee took note of comments made by Uruguay, Argentina and the European Communities related to the adoption of the above Decision.

17. International prices of butter and anhydrous milk fat remained at or closely above the minimum export prices throughout 1987. However, towards the end of the year, the situation was improving and sales of fresh butter were reported to have been effected at prices up to US\$1,200 per ton f.o.b. Prices for fresh butter in the first quarter of 1988 were around US\$1,100 per ton f.o.b. Some recent sales were reported to have been made at prices between US\$1,200 and US\$1,440 per ton f.o.b. Reduced supplies and carry-over stocks were expected to result in an improvement in prices for fresh butter in 1988.

18. The Committee of the Protocol Regarding Certain Cheeses noted that world cheese production had continued its upward trend in 1987, totalling 13.7 million tons, an increase of 1.5 per cent compared to 1986. Another 1.5 per cent gain was forecast for 1988.

19. The upward trend in cheese consumption was reconfirmed in 1987. World per capita cheese consumption has been increasing at an average annual rate of 2 per cent since the early eighties, and may continue to increase at that rate.

20. World exports of cheese recovered appreciably in 1987, following stronger import demand by OPEC countries and other developing countries, and were expected to continue to expand somewhat in 1988.

21. Cheese stocks were, on 1 January 1988, lower than one year earlier and were expected to decline further throughout 1988.

22. The Committee took note of the information furnished by Australia and New Zealand regarding sales under Article 7:2 of the Protocol. It also took note of a statement by the EC concerning the use of this derogation.

23. Prices of Cheddar cheese continued to strengthen in 1988 fluctuating between US\$1,600 and US\$1,800 per ton f.o.b. during the first quarter, thus remaining well above the agreed minimum export price. Prices were expected to continue to rise in the coming months.

24. The Committee of the Protocol Regarding Certain Milk Powders noted that world production of skimmed milk powder estimated at 4.2 million tons had fallen by more than 10 per cent from 1986 to 1987. Thus, the upward trend of recent years for skimmed milk powder production had been halted in 1987, mainly as a result of reduced butter production and consequently less skimmed milk powder becoming available for drying. Major producers like the European Communities and the United States experienced declines of 20 to 30 per cent. World production of skimmed milk powder was expected to decline further, although less steeply in 1988, following a continued fall in butter production.

25. World consumption of skimmed milk powder remained relatively stable in 1987 after having decreased in 1986. It was expected to fall again in 1988, reflecting the tighter supply situation for milk powders.

26. World exports of skimmed milk powder (including food aid) recovered appreciably in 1987 and at around 1.2 million tons were 3 per cent up on 1986. Import demand in some developing countries remained strong. This particular demand was to a large extent met by continued heavy shipments by the United States. The market situation also permitted Community exports to recover and stocks were reduced. In light of a reduction in production and reduced stocks, skimmed milk powder exports were expected to be substantially reduced in 1988.

27. At the end of 1987, world stocks of skimmed milk powder were substantially lower than at the end of 1986. The decrease in stocks recorded at the end of 1987 was primarily accounted for by the sharp decrease in stocks in the United States and an appreciable drop in EC stocks. The tight market situation might entail a further reduction in world stocks of skimmed milk powder.

28. International prices of skimmed milk powder continued to firm in early 1988 and fluctuated between US\$1,300 and US\$1,400 per ton f.o.b. in the first quarter. The market was feeling the effects of the tightening supply situation and was expected to continue to show firming tendencies in the coming months.

29. World whole milk powder production continued to expand in 1987, reaching 2.2 million tons, about 9 per cent more than in 1986. Production increased in all regions, but most strongly in the EC. World production was expected to expand further in 1988.

30. Whole milk powder exports continued their upward trend in 1987 and exceeded some 900 thousand tons reflecting strong import demand. They were expected to grow further in 1988, however most likely at a more modest rate than in 1987.

31. International prices of whole milk powder continued to firm in early 1988 and fluctuated between US\$1,400 and US\$1,500 per ton f.o.b. in the first quarter. Thus the market remained firm, the supply situation was tight and prices were likely to increase further.

32. The Committees reviewed the level of the minimum prices of products covered by the respective Protocols on the basis of the criteria established by the Arrangement.

33. The Committees decided, in pursuance of Article 3:3 of each of the Protocols that the levels of the minimum prices specified in that provision would be raised (f.o.b. per metric ton) to US\$900 for skimmed milk powder, US\$1,000 for whole milk powder, US\$900 for buttermilk powder, US\$1,325 for anhydrous milk fat, US\$1,100 for butter and US\$1,200 for certain cheeses. The schedules of price differentials according to milk fat content had consequently been modified. It was agreed that the decisions would take effect at noon on 23 March 1988.

34. The Committees agreed that the decisions would be duly recorded in the respective reports and would be the subject of a Procès-Verbal signed by the Director-General of the CONTRACTING PARTIES to the General Agreement, certifying the entry into force of the new minimum prices and the new schedules of price differentials.

35. The Committees took note of statements related to the changes in prices made by Australia, New Zealand and Finland on behalf of the Nordic countries.

36. The Committees proceeded to a discussion on improvement of working methods following the suggestions made at the September 1987 meetings of the Council and the Committees. The Committees took note of a background paper on this subject (DPC/W/78). It was noted that certain suggestions had already been implemented and satisfaction was expressed with the changes made. Other suggestions, however, seemed to warrant further reflections and it was agreed that the discussions might be pursued at some later stage.

37. The next sessions of the Committees will be held consecutively on 20, 21 and 22 June 1988, subject to confirmation by the secretariat.

38. The Council took note of the reports on the implementation of the Protocol Regarding Milk Fat, the Protocol Regarding Certain Cheeses and the Protocol Regarding Certain Milk Powders, and in particular noted that the minimum export prices for all products covered by the Protocols had been raised with effect from 23 March 1988. The Council expressed its sincere thanks to the Chairman of the Committees for his excellent work and for the reports.

#### Replies to Questionnaire 4

39. The Chairman recalled that according to Rule 23 of the Rules of Procedure, annual data concerning milk and dairy products other than those covered by the Protocols, should be furnished two and a half months at the latest after the end of the period concerned. The secretariat had circulated, on 12 February 1988, an invitation to submit replies inter alia to Questionnaire 4. At the time of the meeting replies had been received from the following participants: Argentina, Australia, Bulgaria, Finland, Hungary, Japan, Norway, Poland, South Africa and Uruguay. Canada had also submitted the required information.

40. The representative of New Zealand apologized for not having submitted his reply yet, but would see to it that the information would reach the secretariat shortly. The representative of the European Communities referred to technical difficulties encountered when preparing the reply to Questionnaire 4, but hoped to be able to provide the information in a few weeks time.

41. The Council took note of the information received, which had been or would shortly be circulated in the DPC/STAT/- series. It also noted the comments made, and the Chairman urged participants who had not yet submitted their replies to Questionnaire 4, to take the necessary steps to ensure that the relevant information would be submitted to the secretariat as soon as possible.

#### Replies to Questionnaire 5

42. The Chairman recalled that according to Article III of the Arrangement, and to Rules 23 and 29 of the Rules of Procedure, the full text of the inventory shall be distributed to participants at the beginning of each three-year period. As the Arrangement would be entering its fourth three-year period of operation in January 1989, the inventory of measures affecting trade in dairy products would consequently have to be completely revised before the end of 1988. Delegations should therefore take the steps necessary to ensure a timely submission to the secretariat of the relevant information. The inventory would subsequently be circulated in a DPC/INV/4/- series.

43. The representative of New Zealand regretted that his reply to Questionnaire 5 had been delayed. Various price legislations were actually under revision and he would ensure that the new revised legislation would be notified as soon as possible. The Community representative recalled that important work was going on, but as soon as the relevant decisions had been taken, they would be notified to the secretariat.

44. The Council took note of DPC/INV/3/Rev.5 which showed the status of the inventory on 18 March 1988 and of notifications subsequently received from Japan, Hungary, South Africa, Sweden and Canada, which would shortly be circulated in the DPC/INV/3/- series, and of statements made by New Zealand and the Community. The Chairman urged participants that had not yet done so, to submit due notifications as soon as possible.

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

45. For its traditional evaluation of the situation in, and outlook for the world market for dairy products, the Council had before it various documentation prepared by the secretariat; namely a status report on the world market for dairy products (DPC/W/76), a note on food-aid operations relating to dairy products (DPC/W/80) and relevant statistical information (DPC/W/75, DPC/F/W/36, DPC/C/W/35) and DPC/P/W/34). The Chairman recalled that parts of the status report had been subject to consideration in the Committees of the Protocols, which had also reviewed the statistical information. He invited delegates to make general comments on dairy policy matters and the market situation, but anyone should feel free to take up specific points related to the market situation and the documentation, if this was desirable.

Milk deliveries

46. More recent information regarding milk production and deliveries was provided by several representatives. In the European Communities, the decline in number of dairy cows had remained strong, with a reduction of 3.9 million head from December 1986 to December 1987 and an expected reduction of another 1 million head in 1988. Milk deliveries were expected to be down to 95.7 million tons in 1988, suggesting a decline of 2 to 3 per cent.

47. In New Zealand, climatic variations had continued to have a major impact on milk production. Extremely favourable weather conditions in 1985/86 resulted in a record high production level of 349.4 million kgs. of

milk fat, while dry conditions throughout the summer of 1986/87 entailed a reduction of 14 per cent and a production of only 301 million kgs. of milk fat. Assuming average conditions, milk production was in 1987/88 expected to be around 325 million kgs. milk fat. In the early part of 1988, bad weather had, however, caused some concern. Australian milk production was expected to be at the level of recent years in 1987/88, or drop slightly in view of unfavourable weather conditions. Cow numbers were reported to have fallen in Japan as well, at present being less than 1.3 million head. A 1 per cent decline in milk production in 1987 was, however, the result of measures taken to control production.

48. In Poland, milk deliveries had been insufficient to meet domestic demand for dairy products in 1987, substantial quantities of dairy products had had to be imported and further imports were necessary in 1988. Adverse weather conditions had adversely affected Bulgarian milk production in 1987. In Hungary milk production had increased in 1987, reaching 2.73 million tons due to increased yield per cow.

49. Lack of rainfall had adversely affected milk deliveries in South Africa in 1987, but the climatic conditions had improved and production might be at a more normal level in 1988. In Uruguay, milk deliveries had increased in 1987, entailing a significant increase in the output of dairy products.

50. In Finland, milk deliveries had fallen by 4 per cent from 1986 to 1987, in the latter year accounting for less than 2.7 million tons. This was due to a bad harvest of feed, low quality of feed grains and reduced support prices in real terms. Deliveries were expected to return to a more normal level in 1988. In Norway, milk deliveries had increased by 1.8 per cent in 1987, compared to 1986. Production quotas for 1988 had been tightened by 1 per cent, about 1 per cent of the milk producers were expected to give up production, and milk deliveries in 1988 were expected to decline. In Sweden, both production and consumption of milk declined from 1986 to 1987. A reduction in milk deliveries was expected further for 1988, as both the number of cows and yields per cow were forecast to

decline. In Switzerland, milk deliveries fell by 3.4 per cent from 1986 to 1987 and was expected to decline again in 1988. There was a reduction of 4.6 per cent in the number of cows, and the measures applied to prevent deliveries in excess of quotas were having their effects.

51. In the USSR, milk production reached 103.4 million tons in 1987, 1.2 per cent higher than in the previous year. Production was expected to increase by another 2 per cent in 1988.

#### Dairy policies

52. In Finland, a new dairy programme was being implemented in 1988. Under that programme producers giving up production for five years would receive a payment of FIM 0.90 per litre per year and producers abandoning milk production definitely would receive a payment of FIM 1.20 per litre per year. The response from producers was much larger than expected and the amount of FIM 120 million granted to cover costs was insufficient to cover the demand. Consequently, payments per farm per year were limited to FIM 80 thousand and priority was given to farmers giving up their quotas, having serious disability or being of an age between 55 and 64. The programme was expected to result in a reduction in milk production of 50 to 60 million litres in 1988 and 100 million litres a year in subsequent years. The voluntary two-price system introduced in Sweden in 1986 had resulted in a fall in milk production. The system was at present subject to evaluation and conclusions regarding the experience with the system were expected to be released shortly. No decision had yet been taken as to a possible continuation of the system after the trial period of three years had expired. It was nevertheless likely that some kind of control system would be needed also after 1988.

53. The Community representative recalled that a negotiating process had started already a while ago in Punta del Este. Some progress had been achieved but unfortunately only of a theoretical nature. One purpose of the negotiation was to avoid burdensome surpluses by adapting supply to demand and to obtain an improvement in the situation and redress the world

market. This would in particular apply to the dairy sector. The Community had adopted drastic measures to adapt supply to demand several years ago; measures which were hard to establish and difficult to implement and have accepted by the farmers. The measures were already initially intended to be maintained for at least four years, and he wondered what other participant would be able to block the budget for a period of that length. He appreciated that some countries such as the Nordic countries, Switzerland and Japan had also taken steps to contain milk production. The Community nevertheless felt somewhat isolated and disappointed with the attitudes of other major producers. Although some countries applauded and expressed appreciation for what the Community had done, they themselves were sitting back watching the game, doing nothing. He expressed the concern that Australia and New Zealand were not doing enough to limit growth in production. He mentioned that recent forecasts for the United States indicated an increase in milk production which might completely nullify the effect of the Community measures. The ongoing expansion in USSR milk production gave reason to ask for how long the USSR might continue to absorb significant imports of dairy products. He felt it to be appropriate to make an appeal to all IDA participants, and to extend that appeal to the United States, to fully respect the new minimum export prices adopted for dairy products. He appreciated that the United States had not made sales below the minimum prices in 1987, and did not exclude that one reason for that was the Chairman's letter to the United States. As to some earlier comments that the Community should dispose of its surpluses in the internal market, he suggested that this might entail a reduction in Community imports.

54. The Community representative invited other participants to report on the measures they had in fact applied to contain milk production and also upon developments in cow numbers and yields per cow.

55. The representative of Australia, while being in agreement that the issue of the Uruguay Round was a central one, doubted that it was appropriate to deal with it at length in this forum. His view was that the objectives were clearly set out in the Punta del Este Declaration;

negotiations should aim to achieve greater liberalization of trade in agriculture, and that was far from meaning market or burden sharing. He wanted to reiterate the points he had made in the Protocol Committees, as there was a persisting confusion of symptoms and causes which he could not accept. Australia was liberalizing further the dairy industry in consistence with the Government's view that that was the approach to market distortion and problems to world agricultural trade.

56. Australian milk production remained stable, its size being mainly determined by the weather conditions and the prices obtained in international markets. Australian milk production was not overwhelmingly important in the world context, while even minor fluctuations in Community disposals could have dramatic impact on world market prices. A discussion on dairy policies would not be symmetric. A number of participants had enormously high levels of support and in order to remedy the damage of that they had had to apply some restraints, which he welcomed.

57. He shared the concerns expressed with the effects of United States dairy policies, and recalled that Australia had repeatedly expressed concern with the continued application of import restrictions under Section 22, an aspect to be taken into account when evaluating the world dairy situation. However, the circumstances that led to the United States withdrawal from the Arrangement were well known. In his view the best way for adapting world market conditions was to liberalize trade.

58. The New Zealand representative shared the views expressed by Australia regarding the appropriate forum for where certain discussions on liberalizing trade should take place, and also stressed that the major objective of the Uruguay Round was to liberalize trade. He wanted in any case though, to pay tribute to the efforts made by the Community to reduce milk production, but would nevertheless mention that Community production had increased by 23.6 million tons from 1973 to 1983, four times New Zealand production. He could not agree that New Zealand had done nothing to stabilize the market. In 1986/87, New Zealand farmers had to accept a drop of 20 per cent in the milk price, and that was considerable

in view of the fact that the farmers there had to bear the total costs of production. It was not in their interest to increase production independently of what the market could absorb. The farmers had to look at the prices obtained in international markets and the market situation in general. Producers could not count on governmental support as farmers in other countries did, and producers' response would continue to be determined by market forces.

59. In New Zealand, producer prices for milk were determined directly by export market realizations. This was also the case of other sectors of agriculture, notably the grazing of sheep for meat and wool. Fundamentally, therefore the level of milk production in New Zealand was determined by the export performance of the dairy industry relative to other alternative uses of the land - with short-term sharp variations because of the climatic conditions. Although there were no subsidies or other regulations which could be manipulated to control production, a number of steps had been taken in recent seasons to influence it by special measures including: a supply moratorium and a milk limitation scheme, applied in the 1986/87 season resulting in contracts to reduce production by 5,300 tonnes of milk fat or 1.5 per cent of 1985/86 output. The payment for this "non-production" was \$1.2/kg. milk fat. For the current season a "butter realization differential" scheme had been introduced. Under this scheme, payments to dairy companies by the New Zealand Dairy Board for export butter and butter oil beyond a base production level would be made on the basis of marginal rather than average market realizations.

60. The observer from Canada reported on the situation and outlook in his country, where milk deliveries had shown some increase over recent months. Market quotas had been increased by 1.5 per cent for 1987/88 (August to July) to a level of 47.3 million hectolitres. A new methodology for setting target returns and support prices for butter and skimmed milk powder was being implemented which would allow changes in costs to milk producers to be more accurately reflected. Target returns would be raised by 1 per cent, the first increase since August 1986.

Casein

61. The New Zealand representative said that markets and prices for casein had been dramatically affected in the middle of 1987. Reduced availability of skimmed milk in the European Communities had resulted in higher casein prices as manufacturers passed on their higher raw material costs. Community aid paid on casein manufacture was reduced in October 1987 and would be further reduced in April 1988, to an amount of ECU 8.45/100 kgs. of liquid skimmed milk. Increased skimmed milk cost and reduced Community aid resulted in prices moving from a level of DM 4,250 per ton early in 1987 to DM 6,000 per ton early in 1988. This 40 per cent increase in prices had not yet resulted in any noticeable change in the Community production level. Exchange rate fluctuations with a decline in the value of the US dollar had resulted in additional upward pressure on casein prices, and in the United States market, the key market business was currently being transacted at prices in the range of US\$180 to US\$200 per 100 lb.

General comments on the status report

62. In commenting upon the documentation prepared by the secretariat in general, a number of delegates expressed their satisfaction and commended the secretariat for its work. Some suggestions for up-dating and completion were made in the meeting and others were given to the secretariat directly. The representative of New Zealand enquired about how some figures for world trade and for trade of the German Democratic Republic had been arrived at. The secretariat explained that various sources had been made use of, mainly information provided by the IDF, the FAO and the USDA. World totals were basically FAO totals from which intra-Community trade had been deducted. Trade figures for the German Democratic Republic had been arrived at by combining information given by other countries on their trade with the German Democratic Republic, as the latter does not publish statistics on agricultural trade.

63. The Council took note of the status report on the world market for dairy products (DPC/W/76), a note on food-aid operations (DPC/W/80) and relevant statistical information compiled by the secretariat. The Council also noted the comments made under this item of the agenda.

E. Commodity description and coding

64. The Chairman recalled that with effect from 1 January 1988, most participants in the Arrangement had implemented the new Commodity Description and Coding System (Harmonized System) established by the Customs Co-operation Council, which was intended to serve as a single nomenclature standard for the classification of trade goods. Other participants were expected to implement the new system shortly. Some changes had been made in the description and coding of products covered by the Arrangement and it might consequently be appropriate to consider whether changes or modifications would have to be made.

65. The secretariat introduced a note it had prepared on the matter (DPC/W/77) including a draft decision (DPC/W/77/Corr.1), and informed the Council that the Legal Office had expressed the view that the Council had the authority to amend the nomenclature following the adoption of the Harmonized System, which was of a purely formal character.

66. The Chairman pointed out that if a decision was taken to change the commodity description and coding used in the Arrangement before all participants had implemented the Harmonized System, it would be necessary to adopt a decision or understanding regarding the situation of such participants pending their implementation of the Harmonized System. He read out the following draft text:

"The Council noted that some participants had not yet implemented the Harmonized System, and agreed that for each of those participants the old version of Article II of the Arrangement and of Article 1 of each of the Protocols would remain valid until such participant would have implemented the Harmonized System."

67. However, several delegates wanted more time to consider the matter and to consult with legal and technical experts in capitals. It was also considered desirable to try to have some informal discussions at expert level before a final decision of the matter was taken. The Council took note of DPC/W/77 including Corrigendum 1, and the Chairman's draft proposal above regarding the situation of participants not having implemented the Harmonized System at the time of adoption of a new commodity description and coding in the Arrangement. It was agreed to revert to the matter at a later session of the Council, for instance at a special session if appropriate.

F. Improvement of working methods

68. The Chairman recalled that since the last meeting of the Council the question of improvement of working methods had been subject to informal discussions and, following a Note by the Chairman of the Protocol Committees, had been drawn up and circulated (DPC/W/78). The note had been considered at a joint meeting of the Protocol Committees and some suggestions for changes in the note had been made. Certain suggestions had already been implemented and satisfaction was expressed with the changes made. Other suggestions, however, seemed to warrant further reflection and it was desirable to pursue discussions on the matter.

69. The Council took note of document DPC/W/78 and agreed that it should be revised in light of suggestions made. It was also agreed that the discussions on the matter might be continued at some later stage.

G. Note by the Chairman on the present meeting

70. The Chairman recalled that according to the Decision of 28 November 1979, the CONTRACTING PARTIES should receive adequate information on developments relating to the operation of the Arrangement (BISD 26S/201). He accordingly suggested the submission of the following Note by the Chairman:

1. The International Dairy Products Council held its eighteenth session on 23 March 1988.
2. Mr. T. Groser (New Zealand) was re-elected Chairman for 1988/89 and Mr. P. Huhtaniemi (Finland) was re-elected Vice-Chairman of the Council.
3. Under Rules 11 and 14 of the Rules of Procedure, the Council invited representatives of Panama and the Economic Commission for Europe, FAO, IMF, OECD and UNCTAD to attend the session as observers.
4. The Council reviewed the functioning of the Arrangement. It took note of reports on the implementation of the Protocol Regarding Milk Fat, the Protocol Regarding Certain Cheeses and the Protocol Regarding Certain Milk Powders.
5. The Council took note of the information submitted recently in reply to Questionnaires 4 and 5, concerning products not subject to the provisions of the Protocols and concerning domestic policies and trade measures. Participants that had not submitted all the information requested were urged to do so as soon as possible.
6. For its traditional evaluation of the situation in, and outlook for the world market for dairy products, the Council, in addition to the reports from the Committees of the Protocols, also had before it documents prepared by the secretariat, notably a status report on the world market for dairy products, a note on food-aid operations and relevant statistical information. The Council took note of the documents and comments made.
7. World milk production declined by almost 1 per cent from 1986 to 1987. Efforts made in many countries to contain milk production were yielding results as hoped for and in addition unfavourable climatic conditions had adverse effects on milk production in several regions.

The decline in world milk supplies was mainly due to a 5 per cent decline in Community milk deliveries in 1987, but there were also significant reductions in milk deliveries in New Zealand, India and the United States. World milk production was expected to increase again in 1988. Milk deliveries were expected to be further reduced in the European Communities and to remain more or less unchanged in most other countries. However, United States milk production was expected to increase and might, together with expected recoveries in New Zealand and India and further increases in the USSR and some developing countries, more than outweigh a decline in Community milk deliveries.

8. The immediate result of reduced milk deliveries in 1987 was a spectacular reduction in intervention stocks of butter and skimmed milk powder, notably in the European Communities and the United States. Increased exports also helped in reducing surplus stocks.

9. There was an appreciable recovery in international trade in cheese and milk powders in 1987, and prices firmed up throughout the year. Whole milk powder was to an increasing extent replacing condensed milk, and international trade in the latter fell again in 1987. Exports of cheese and whole milk powder were expected to grow further in 1988, while exports of butter and skimmed milk powder were expected to fall in light of reduced production and stocks. Throughout 1987, market prices for butter and anhydrous milk fat remained at or closely above the minimum export price. Early in 1988, the situation had improved and sales of fresh butter were reported to have been made at prices well above the minimum. Reduced supplies and carry-over stocks were expected to result in an improvement in prices in 1988, notably for fresh butter.

10. In light of the improved market situation, the Protocol Committees had decided to raise the minimum export prices for all products covered by the Protocols. New minimum export prices,

effective 23 March 1988 are as follows, per ton f.o.b.: anhydrous milk fat US\$1,325, butter US\$1,100, certain cheeses US\$1,200, whole milk powder US\$1,000, skimmed milk powder and buttermilk powder US\$900.

11. Following suggestions made at the September 1987 meetings of the Council and the Committees, discussions had been held on improvement of working methods. Certain suggestions had already been implemented and satisfaction was expressed with the changes made. Other suggestions, however, seemed to warrant further reflection and it was agreed that the discussions might be pursued at some later stage.

12. The Council noted that most participants in the Arrangement had implemented the new Commodity Description and Coding System (Harmonized System) established by the Customs Co-operation Council and that other participants were expected to implement that system shortly. Some delegations wanted to have more time for the consideration of technical and legal aspects, and the matter will be reverted to at a later session of the Council.

71. The Council agreed to the suggestion by the Chairman and the note was circulated in document L/6320, dated 24 March 1988.

72. The eighteenth session of the International Dairy Products Council was then closed.