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International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

TENTH SESSION

Report

Chairman: Mr. D. Greenfield

1. The International Dairy Products Council held its tenth session on 29 March 1984.
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
 - Reports on the sessions of the Committees of the Protocols
 - Replies to Questionnaires 4 and 5
 - D. Evaluation of the situation in and outlook for the world market for dairy products
 - E. Other business
- A. Election of the Chairman and Vice-Chairman
3. In pursuance of Rule 2 of the Rules of Procedure, the Council elected Mr. D. Greenfield (New Zealand) as Chairman and Mr. L. Bartha (Hungary) as Vice-Chairman. Appreciation was expressed to Mr. R. Long (Ireland) who had presided over the Council's work in 1983, and to Mr. A. Cruit (United States) who had held the office of Vice-Chairman over that period.
- B. Admission of observers under Rules 11 and 14 of the Rules of Procedure
4. In pursuance of Rule 11 of the Rules of Procedure and as at earlier sessions, the Council invited representatives of Mexico and Panama to follow the discussions at the current session as observers.
5. In accordance with Rule 14 of the Rules of Procedure and as at earlier sessions, the Council was informed that OECD, UNCTAD, FAO and the Economic

Commission for Europe had been asked to indicate the agenda items on which they wished to attend the discussion and invited representatives of those organizations to follow the discussions at the current session as observers.

C. Review of the functioning of the Arrangement

Report on the sixteenth and seventeenth sessions of the Committees of the Protocols

6. The Council had before it reports by the Committee of the Protocol Regarding Certain Milk Powders, the Committee of the Protocol Regarding Milk Fat and the Committee of the Protocol Regarding Certain Cheeses on their sixteenth sessions, circulated as documents DPC/P/24, DPC/F/24 and DPC/C/24 respectively. An oral report was made by the Chairman of the Committees on their seventeenth sessions, held consecutively on 26, 27 and 28 March 1984 as well as on the joint meetings held on 16 December 1983 and 28 March 1984.

7. In that report, it was noted that each of the Committees had entrusted the office of Chairman to the secretariat (Mrs. F. Hubert). After examining replies to the questionnaires and the summary tables, the Committees had reviewed the market situation for the products covered by each of the protocols. The Committee of the Protocol Regarding Certain Milk Powders had noted that production of skimmed milk powder had increased in 1983 more rapidly than in the preceding year; growth was expected to be slower in 1984, however. According to provisional data available to the secretariat, total exports of skimmed milk powder (including food aid) seemed to have increased slightly in 1983 after two years of decline. Sales by the EEC had dropped back sharply as had those by Canada, while United States exports had increased very substantially. Exports by other participants, including New Zealand, had also increased appreciably. Apparent consumption of skimmed milk powder was believed to have developed more rapidly in 1983 than in 1982. That trend seemed essentially due to the consumption increase in the United States and the EEC, where several promotion programmes were being implemented. Aggregate stocks of skimmed milk powder at the end of 1983 had been very much above their level at the beginning of the year, the increase being particularly pronounced in the EEC. Stocks had likewise risen in the United States and although a sharp decline was expected in 1984, their level would remain substantial. International prices of skimmed milk powder had weakened, particularly in the last three quarters of 1983. Average prices in 1983 had fluctuated within a bracket between US\$745 and US\$850 per ton f.o.b. At the beginning of 1984 prices of skimmed milk powder for human consumption had varied according to the supplier and seemed to have been in a bracket between US\$700 and US\$760 at the end of March. Sales of skimmed milk powder for animal feed had nevertheless been reported at lower prices. South Africa, Australia and New Zealand had invoked the provisions of Article 3:5 of the Protocol. The Committee had taken note of that action and had examined the

application of the provisions of that paragraph while underlining the importance of their strict observance. It had noted that the register of processes and control measures contained processes and control measures of countries not participating in the Arrangement. It had considered by what means the problem could be solved. The legal aspects of solutions envisaged were to be examined. The matter would be included in the agenda for the Committee's next session. With respect to whole milk powder, output had increased somewhat in 1982, but had dropped back in 1983. The slowing trend in international trade noted in 1982 had become more pronounced in 1983 and the market for whole milk powder had been characterized by instability and weak demand. Developing countries in particular had cut back their purchases which had increased rapidly until 1981. International prices of whole milk powder had weakened in 1983 and at the end of the year had been in a bracket between US\$1,000 and US\$1,150 per ton f.o.b. In early 1984, they seemed to have continued to weaken and toward the end of the first quarter had been in a bracket between US\$980 and US\$1,100 per ton f.o.b.

8. The Committee of the Protocol Regarding Certain Cheeses had noted that cheese production seemed to have progressed in 1983 more slowly than in the previous year; a further slowdown seemed likely in 1984, since prospects for international trade expansion were limited. That trade, which had remained active overall in 1982, was reported to have slowed down in 1983. Cheese import growth in the developing countries seemed to have virtually come to a halt. Overall consumption had continued to develop in 1983, though more slowly than in 1982. As a result of those developments, by the end of 1983 stocks in most major producing countries had been higher than one year earlier. In the United States in particular, total stocks - i.e. government and commercial - had continued to increase in 1983. While a considerable reduction in those stocks was expected in 1984, their level would nevertheless remain high. Prices of cheese varied considerably according to varieties and markets. International prices for Cheddar cheese had dropped back substantially in 1983. Those prices, which at the end of that year had been in a bracket between US\$1,200 and US\$1,500 per ton f.o.b., had been fluctuating between US\$1,200 and US\$1,350 per ton f.o.b. toward the end of the first quarter of 1984. The Committee had taken note of the New Zealand notification regarding sales under Article 7:2 of the Protocol and had been informed of transactions carried out in that connection.

9. The Committee of the Protocol Regarding Milk Fat had noted that butter output had increased rapidly in 1983, in particular in the EEC, the United States and the USSR. Further progress was expected in 1984, though at a slower rate. In particular, production was forecast to decline in the United States. As in 1982, international trade in butter had slowed down in 1983 because of weak demand. In particular, exports by the EEC and New Zealand had declined. Some increase had nevertheless been reported in exports by certain participants. Imports of butter and anhydrous milk fat by developing countries, in particular the OPEC countries, seemed to have declined in 1983. Imports by the USSR and Eastern Europe also seemed to

have dropped back, in particular because of increased domestic production. According to available data, aggregate consumption of butter seemed to have remained relatively stable in 1983. Numerous measures to promote that consumption had been reported. At the end of 1983, total butter stocks had been well above their level at the beginning of the year. The increase had been particularly pronounced in the EEC. International prices of butter varied according to the supplier, the market and selling conditions. In general, they had continued to weaken in 1983 and early 1984 and at the end of the first quarter had been in a bracket between US\$1,500 and US\$1,680 per ton f.o.b. Offers had nevertheless been reported at lower prices. With respect to anhydrous milk fat, EEC production had increased in 1983, and a pronounced increment had been recorded in New Zealand. Exports by the EEC had also risen while those of New Zealand had remained stable. International prices of anhydrous milk fat had dropped back steadily in 1983 and early 1984 and at the end of the first quarter of 1984 had been fluctuating between US\$1,700 and US\$1,900 per ton f.o.b.

10. The Committees had approved the interpretation given by Australia to Article 2 of the Protocols, i.e. that Melbourne could be used as reference point for the export of products originating in Tasmania.

11. The Committees had underlined that the situation in the dairy market remained serious. Any significant increase in world demand seemed unlikely and despite measures taken or envisaged, availabilities in 1984 would again be in excess of real demand. The Committees had reaffirmed the importance of co-operation among all participants in international trade in these products, and had underlined once again that a responsible attitude on their part together with strict observance of the provisions of the Arrangement were essential in order to avoid any further deterioration of the market situation.

12. The Committees had held two joint meetings on 16 December 1983 and 28 March 1984. They had pursued the survey of government measures to expand domestic consumption of dairy products on the basis of a secretariat note containing a compilation of information furnished by delegations interested in that work. They had recognized the usefulness of that information for work under the Arrangement and had agreed to continue to review the question of consumption. An extension of the survey had been proposed by New Zealand along lines that that delegation would be indicating to the Council.

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

14. In reply to an enquiry made at sessions of the Committees, the representative of Australia said that the average price of Australian butter in the last quarter of 1983 had been US\$1,672 per ton f.o.b. With reference to a price mentioned by the United States, i.e. an Australian offer of butter at US\$1,250 per ton f.o.b., the Australian Dairy Corporation had no knowledge of any offer at that level. While it was possible for a trader to make an offer without the Corporation being

informed, the latter's approval was necessary before any delivery. The work of the Committees was not facilitated by indications furnished by participants regarding prices of other participants unless those indications were accompanied by details allowing verification; unfounded allegations could distort interpretation of price movements in the international market. Fruitless debates in the Committees could be avoided if indications were furnished prior to sessions and discussed beforehand.

15. The representative of the United States said that, while appreciating the concern expressed, through trade channels it was possible to learn about offer prices that had some influence on the market. Moreover, in certain cases there had been confirmation of sales at the prices mentioned. The Committees must be kept informed of the situation, and even of rumours. Furthermore, some of the prices mentioned referred to sales of milk powder for animal feed which were required to be notified under the Arrangement. In the current situation of a declining market, all information was useful for the review that the Committees had to make.

16. The representative of Finland referred to questions about prices that had been raised in the Committees. It had been proposed that the figures mentioned by participants in respect of prices offered by other participants should be communicated to them before sessions; he wondered, however, whether that would not have the effect of preventing open discussion in the Committees.

17. The representative of Poland said that, without precluding the possibility of mentioning prices in the course of sessions, it would seem in the general interest if such indications were communicated in advance so that those concerned could have time to obtain the necessary information. At the December sessions, reference had been made to prices of Polish Cheddar at levels below the minimum price, but the investigations he had then requested had yielded no confirmation. Such prices did not reflect the policy practised by Polish exporters and he supported the idea that participants should be warned in time so as to be able to react to allegations that could have an influence on behaviour of exporters.

18. The representative of the European Economic Community noted that preliminary information could indeed be useful so that the participants concerned could reply during sessions of the Committees; on the other hand, it was important for all information, in particular that required by the questionnaires, to be provided, particularly in respect of prices. In that connection, he mentioned Argentina, which had launched a sales drive on the Latin American market at prices which seemed well below those practised by the major partners in that trade.

19. The representative of Argentina said that at earlier sessions of the Council his country had furnished those figures that were available. He noted that in the Arrangement some leeway was provided in respect of information to be furnished by developing countries. Regarding the indications given by the EEC representative, that information would be

conveyed to the Argentine authorities. The proposal regarding advance communication of information on prices to be mentioned during meetings was interesting since it would allow precise data or certain information to be obtained in time for consideration of the matter.

20. The representative of Japan said that his delegation, although from an importing country whose position was different from that of exporting countries, would do its best to furnish all information in its possession.

21. The representative of the United States said that the question was important. In December, indications had been given regarding prices lower than those selected as being representative. The prices discussed in the Committees were in general higher than market prices which determined the behaviour of traders. The indications given were not an accusation but reflected the concern to determine the real situation. To the fullest extent possible, the United States delegation would try to communicate them in advance.

22. The representative of Norway asked whether, in the case of information communicated in advance by one delegation to another, some procedure could be established for the secretariat likewise to be informed and to bring the matter before the Committee.

23. The Chairman noted the importance of transparency, i.e. the need for the most extensive information and the frankest discussions possible. Advance information on questions that were to be raised would be useful to the delegations concerned and allow constructive discussions, but could prove difficult in practice because of the time factor. It did not seem necessary, therefore, to establish any formal procedure for that purpose.

24. Referring to the survey of government measures to expand domestic consumption of dairy products, the representative of New Zealand, noted that it furnished a very useful data base for attainment of the objectives of the Arrangement. He pointed out, as he had already done during sessions of the Committees, that the next and logical stage of the study should be an examination of the extent of market imbalance. He proposed that each participant should make that examination through a three-step process in which it would:

- (a) identify and describe the extent of any market imbalance;
- (b) to the extent that this could be explained and quantified, describe the underlying causes and reasons for such imbalance;
- (c) outline the policies and programmes currently enacted/ administered/operated and aimed at reducing the market imbalance.

On the basis of communications from delegations, a document on the subject of market imbalance would be prepared for discussion at the September session of the International Dairy Products Council.

25. The representative of the European Economic Community noted that the New Zealand proposal was presented as an extension of the survey of government measures to expand domestic consumption of dairy products; that study had recorded measures taken to encourage domestic consumption, and in particular their importance in the EEC and the United States. It would be appropriate to examine - and that could be the second stage of the work - whether those measures had improved the dairy products situation, whether they were effective and were contributing to solve certain problems in the world market. The current proposal was not in the same line and its aim was different. The EEC, like other countries, regularly undertook an examination such as that envisaged, which was likewise carried out in the context of regular activities under the Arrangement. The proposal did not therefore seem useful; it could even lead to dangerous conclusions if each participant were to consider what action it could take to restore balance in its own market. In that connection the EEC representative recalled the problems that the Community was encountering in the dairy sector and underlined that it did not export them (4.5 million tons, in terms of milk equivalent, had not been placed on the international market in 1983). The EEC had participated in the consumption study and was disposed to continue it further, but could not approve the current proposal.

26. The representative of Finland concurred with the EEC representative. The Nordic countries had been willing to take part in the consumption survey, which moreover was not yet completed. A new proposal was being made that would call for new contribution by participants, whereas existing documentation could be used, in particular replies to the questionnaires, as a basis for the discussions to be held in the Council.

27. The representative of Norway said that there was no fundamental difference between the proposal that had been made and the work normally to be carried out by the Council; it would be appropriate to discuss in depth the relevant items in the agenda.

28. The representative of Switzerland noted that the new proposal was not unrelated to the survey already undertaken having regard to the rôle of consumption in market equilibrium. His delegation was ready to participate in such an exchange of views but the objectives sought should be clearly specified, i.e. whether the examination was to bear on measures taken in an exceptional situation of imbalance or on permanent measures designed to meet the problem of imbalance or a threat thereof, and which could be of a structural character. In the latter case, information had already been furnished in reply to the questionnaires and the proposal would be more interesting if it were limited to measures taken in disaster situations. If what was envisaged was to examine the structural and latent problem, that had already been the subject of studies.

29. The representative of Australia supported the proposal, noting in particular that such an examination was consistent with the objectives of the Arrangement. The proposal called for examination of various options in order to determine which of them could prevent the need for recourse to

measures that were both costly for the countries applying them and dangerous for third countries.

30. The representative of the United States said that he had no instructions which would allow him to take a position on that important issue, which had a bearing on the normal activities of the Council. He pointed out that it raised various problems including, on the one hand, that of the resources necessary for undertaking the work involved, and on the other hand that of the definition of the idea of imbalance at the level of the various countries concerned. While it was true that studies undertaken in other bodies ought not to hinder the work of the Council, it was nevertheless desirable to avoid any duplication of effort. Furthermore, although the New Zealand proposal was deliberately drafted in general terms, the problems inherent in it must be borne in mind, for example, the question of participation in the work and the fact that it would be necessary to consider the replies received, not in isolation but in a world-wide context. Furthermore, much of the information requested was already available in the material supplied by the participants. Therefore, a new study was not necessary. In view of the importance of the problem, it would be advisable to allow a certain time for reflection and for the consideration of a proposal which went far beyond the bounds of the consumption survey, so as to determine the best way of dealing with the issue, which ought therefore to be deferred to the Council's next session.

31. The representative of Japan endorsed the idea of reverting to that question at the next session of the Council, pointing out that the consumption survey which had been undertaken had not yet been completed.

32. The representative of Hungary said that his delegation supported the proposal which had been made, while noting that it went beyond the study of the promotion of consumption since it dealt also with problems of the adjustment of supply. In his delegation's view, the source of the problem lay in structural overproduction. He regretted that his delegation would probably be unable to supply any information other than that which had already been communicated to the Council.

33. The representative of South Africa noted that there appeared to be agreement on the need to discuss the problem. A great deal of the information requested had already been submitted; what was needed was to agree on the way in which it should be discussed.

34. The representative of New Zealand emphasized that the proposal made constituted an extension of the study already undertaken on the promotion of consumption. What was necessary now was to consider the results achieved by the measures applied and the difficulties that had been encountered. The proposal was aimed at bringing about discussions in depth and, in accordance with the objectives of the Arrangement, the proposed examination fell within the responsibilities and the competence of the bodies which had been set up under it. The proposal had been couched in general terms so that each participant could undertake the examination in

the light of its own experience and offer other participants the benefit thereof. The information available could be used for the purpose and the consumption study would provide basic material for that examination. The information already supplied should be supplemented by reports indicating the measures taken and the results achieved. The secretariat could then make a compilation of the various communications received in a document which would serve as the basis for the overall study which should be made. Since the proposal was intended as an extension of the survey already undertaken, and discussion of the survey would continue at the forthcoming sessions of the Committees, governments would have an opportunity during those discussions to express their views on the proposal, which, he noted, had elicited a number of encouraging responses.

35. The Chairman observed that the question was an important one. Even if it was being dealt with by other bodies, whose composition was, moreover, not identical with that of the Council, it fell within the context of the Arrangement and the Council should revert to it at its next session. The breadth of the examination proposed precluded any decision on the issue by the Committees, but it would be possible, during their June sessions, for participants to state their views on the subject in the course of the further discussions concerning the study on the promotion of consumption.

Replies to Questionnaires 4 and 5

36. The Council took note of the information provided with respect to Questionnaires 4 and 5, and invited participants to communicate to the secretariat as soon as possible the replies to those questionnaires which they were required to submit under the terms of Rule 23 of the Rules of Procedure.

37. The representative of the European Economic Community said that the EEC had not yet submitted its reply because of the review of its dairy policy at present under way; it would supply all the requisite information as soon as a decision had been taken.

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

38. Opening the discussion on this item of the agenda, the Chairman said that the evaluation should cover a certain number of issues such as dairy policies, food-aid and products which were not the subject of protocols. The Council had before it two documents prepared by the secretariat, one a status report on the world market for dairy products (document DPC/W/35) and the other a note on food-aid operations relating to dairy products (document DPC/W/36).

Dairy policies and food-aid

39. The representative of New Zealand drew attention to the fact that while the fragility of the international dairy market had continued since

September 1983, there had been some positive developments. The two developments which were particularly positive were: (1) the policies introduced in the United States to limit milk production and (2) the decision by EEC farm Ministers to recommend that support for milk production be limited. He said that New Zealand believed that both policies were an important first step in correcting the supply/demand imbalance on world dairy markets. He also pointed out that such measures were consistent with OECD recommendations that production controls were the only way to achieve improvement in world dairy markets. He said further that the current fragility of world markets imposed a need for discipline and strong management on all market participants.

40. The representative of Finland indicated that several major modifications had been made to his country's dairy policy. Firstly, he said that, although the final decision had not been made, it was virtually certain that a two-price system would be introduced in September. Details of that system would be supplied later. In addition he reported that anyone who wished to begin dairy production in Finland with a herd exceeding eight cows should now apply for a licence to produce. In 1984 no such licences would be granted. In 1985, licences would be granted to farmers possessing up to thirty cows, providing they produce two-thirds of their own fodder. Also, the voluntary production reduction system had been extended in Finland. Under this system, any producer who reduced his production by at least 15 per cent or 5,000 litres would get FIM 0.90 per litre of reduced production.

41. The representative of Norway explained that Norway's dairy policy was a part of an Agricultural Agreement which was negotiated, each year, between farm organizations and the government. The negotiated policy included both price support and other measures. For the dairy year July 1983-June 1984, the Agreement called for no increase for the producer price of milk. There had also been measures introduced to correct the supply-demand imbalance in the Norwegian dairy market. These were basically supply control measures. Most important was the introduction in 1983 of a two-price system to replace the bonus system for voluntary production decrease. For 1984 the two-price system was basically unchanged from that of 1983, but already it was known that changes would be made for the system in 1985. In 1985, the producers' quotas would be fixed taking into account historical production plus a consideration of how much forage farmers produce on their own farms. Milk deliveries for 1983 totalled 25 million litres, 1.4 per cent less than year-earlier. As regards prospects for 1984 the delegate indicated that they were still hopeful that a decrease in production would be achieved. January data indicated that a 2 per cent decrease had occurred in that month. As regards butter he said that it was likely that a more normal situation would return to the market and hopefully no exports would occur. He also noted that liquid milk consumption had been trending downward for some time, but that it was expected that it might stabilize in the near future. Cheese consumption was still progressing, it amounted to about 12 kg. per capita in 1983, 2 per cent more than in 1982.

42. The representative of Sweden reported that a number of measures had been taken in 1983 to improve the supply-demand situation in the Swedish dairy market. The most important of these measures were: continued limitation of State credit for farm investment; abandonment of "delivery addition" for "elderly" dairy farmers; non-production grants to dairy farmers of 60-65 years of age; restrictions on investments in animal production. The delegate also reported that in early 1983 a governmental committee was created to review existing guidelines for agricultural policy and to design a comprehensive food policy for Sweden. One of its tasks was to develop measures to deal with surplus production. The Committee's proposals as regards long-term policy and future negotiations on price would be presented in the fall of 1984. Finally, it was reported that consumer subsidies on all agricultural products except liquid milk were abandoned as from 1 December 1983.

43. The representative of Japan said that his Government would continue to apply its production restraint programme in 1984. The government support prices and maximum quantities for deficiency payment had been kept at almost the same level. He also supplied information regarding Japan's food-aid programme for fiscal year 1983 (i.e. to 31 March 1984) as it concerned dairy commodities. The programme included the provisioning of whole milk powder and skimmed milk powder, valued at ¥1.1 billion to the following countries: Sri Lanka, Pakistan, Niger, Tanzania and Haiti. This powder was purchased principally from New Zealand with a small amount also purchased from Australia.

44. The representative of the European Economic Community recalled that a review of the dairy situation in the EEC had been given during the sessions of the Committees. The following information had been supplied. Milk deliveries had risen to 103.7 million tonnes in 1983, an increase of approximately 4 per cent, which was thus higher than that of 1982. That increase had occurred, in spite of the very high cost of fodder and unfavourable climatic conditions, because of the increase in the number of dairy cows (+ 1.6 per cent) and in yield (+ 2.4 per cent). In the absence of restrictive measures, there would be a further increase in production of 2.9-3 per cent in 1984. The EEC had therefore prepared a certain number of measures, but since they had not yet been adopted he could not give any details about them at the present time. As regards the world market situation, it was characterized principally by the position of the OECD countries and of the USSR. World milk production had increased more rapidly in 1983 than in the preceding years. That had been due in part to the increase in the number of dairy cattle in various countries and also to the rise in out-put. That rise had been the result of favourable climatic conditions in certain countries, as also of favourable fodder conditions and the prices of feed concentrates, which played a crucial rôle. The rise in production had taken place in a context of economic recession, with a consequent fall in demand, particularly in the developing countries. As a result, exports had declined and international stocks had risen sharply; they now amounted - in milk equivalent - to a total greater than that of world annual production. On 1 March 1984 the nineteen leading countries

held stocks of butter amounting to 1,226,000 tonnes, the Community's stocks accounting for some 70 per cent of that figure. The skimmed milk powder situation was slightly better but still disastrous. For the nineteen countries concerned, on 1 March 1984 stocks had amounted to 1,813,000 tonnes, Community stocks accounting for 52 per cent of the total. It should, however, be noted that in the EEC countries stocks had declined by about 2 per cent since the beginning of the year. The situation had had repercussions on prices. In 1983, butter prices had fallen by 23 per cent, those of butter oil by 28 per cent, those of whole milk powder by 22 per cent, those of skimmed milk powder by 27 per cent and those of Cheddar cheese by 21 per cent. Those prices were coming closer and closer to the minimum price levels laid down by the Arrangement and the principal exporting countries should bear that fact in mind when determining their selling prices for those products; a decline in those prices would be catastrophic.

45. The United States representative said that there had been 37,888 dairy producers' contracts signed under the recently introduced Dairy Diversion Program in his country. Primarily as a result of the programme milk production was expected to decrease by 2-3 per cent in calendar year 1984. He also pointed out that cow numbers in 1984 should be down by about 3-4 per cent, due not only to the incentive programme but to cost of feed as well. He also expected that commercial use of dairy products would improve. The delegate reported that net removals by the Commodity Credit Corporation totalled 16.6 billion lb. (7.5 million tonnes) for 1982/83, milk equivalent, during fiscal year 1982/83 and were expected to total 11.4 billion lb. (5.2 million tonnes), milk equivalent, in 1983/84. Uncommitted CCC stocks were expected to decrease sharply.

46. The representative of Australia indicated that any moves to lower the minimum prices should be resisted. In Australia's view to lower the prices simply because the market was in difficulty would defeat the purpose of minimum prices. Moreover, it was virtually certain that prices would quickly fall to the new minima in any event.

47. The observer for the OECD said that at a high-level meeting of the exporting and importing countries held by OECD at the beginning of February, the organization's Secretary-General had made a statement on the need for domestic adjustments in production and had appealed for greater international co-operation in the following terms: "As market imbalances have now reached levels which cause grave concern to governments, it is necessary for all major producing and trading countries to accept responsibility for stock policies, price disciplines and restraint on credits and subsidies, both domestically and internationally, until the more fundamental reorientation of domestic policies takes place. This is necessary because the risks to agricultural markets and normal trading relations are clearly very high." That statement applied particularly to the dairy sector and it was appropriate to bring it to the attention of the International Dairy Products Council because one of the Council's functions

was precisely to ensure the strengthening of such international co-operation.

48. The Chairman noted that the Council endorsed that appeal for reinforcing international co-operation. As regards the pursuit of the discussions, he stressed the need for full information on food-aid operations. No evaluation of the situation in the world market for dairy products was possible without taking into consideration such operations, whose importance in international trade was growing because of the present situation in the market for dairy products. This fact as well as the need to have detailed information and to comply with the relevant provisions of the Arrangement and with established procedures had been stressed at the preceding sessions, and present conditions further reinforced this necessity.

49. The representative of the European Economic Community recalled that he had already drawn attention, during the Committees' sessions, to the food-aid practices of the United States, especially that of donations intended for the purpose of sales in the recipient country (the proceeds from such sales being used to purchase in the United States goods needed for the development of the country concerned) and operations under Section 416. Discussions on the subject, which ought to be held in the Consultative Sub-Committee on Surplus Disposal in order to determine whether such operations were a substitute for commercial sales, had been unsatisfactory. The International Dairy Products Council ought to be able to discuss beforehand the economic effects of such operations, particularly for other suppliers. That topic ought to be placed on the agenda of the next session and be given thorough discussion.

50. In response, the United States representative said that the Section-416 programme was strictly a donation programme to the needy; no product under the programme entered commercial channels. With regard to the PL-480 programme for development, he indicated that this programme had been in existence for many years but had not been much used. Donations and sales under this programme were under very strict control. Moreover, donations and sales under this programme were expected to decline in 1984.

51. The representative of New Zealand supported the EEC's call for special discussion on the question of food aid. While recognizing food aid's rôle as a supplement to developing countries' own production, the aid should not disrupt normal commercial international transactions. He called on countries to follow the guideline of the FAO's Consultative Sub-Committee on Surplus Disposal. New Zealand was concerned by the growth in the amount of food aid supplied as dairy products and by the size of the United States' skim milk powder stocks. In this regard he indicated that New Zealand believed that the United States had not always respected the letter or spirit of food-aid notification procedures in the CSD. He also reiterated New Zealand's concern with the United States' plans to ship large quantities of aid products to Jamaica. He said that Jamaica was a traditional market for New Zealand and New Zealand would closely monitor that market during the next few months for signs of market displacement.

52. The delegation of Australia supported the New Zealand position. Australia wished to limit large scale concessional transactions such as the sale in 1983 of dairy products to Egypt. Australia wished to have avoided the disruptive effect of such sales on trade.

53. The United States representative reiterated his belief that United States food aid was not entering commercial channels.

54. The Chairman noted that at the Council's next session the question of transactions other than normal commercial transactions would appear on the agenda and should form the subject of thorough discussion.

Products not covered by Protocols

55. The delegate of Finland indicated that consumption of all fresh dairy products in his country was continuing to decline even in spite of an extensive advertising campaign to encourage consumption. The following information had been furnished during the Protocol meetings: milk deliveries to dairies amounted to 3,037,000 metric tons in 1983. In spite of another good harvest in 1983, however, production decreased by 2-3 per cent during late 1983. In the first two months of 1984 deliveries decreased by at least 3 per cent. For the year as a whole deliveries should be near those of 1983.

56. The following information was also supplied:

National milk production in Australia in the October-December period at 2,150 million litres was 3.7 per cent up on the corresponding months in the 1982/83 season. This increase brought cumulative national milk production for the first six months of the current 1983/84 season to 3,663 million litres, up 5.9 per cent on July-December 1982/83. The increases in milk flow continued to be attributed to the excellent seasonal conditions which had prevailed in all major dairy regions and had enabled continued improvements in farm productivity. If reasonable seasonal conditions continued for the remainder of the current 1983/84 season the Australian Dairy Corporation estimated the 1983/84 milk flow at around 5,800 million litres, 5 per cent up on the 1982/83 level.

In Japan, demand for dairy products had basically stagnated since 1977 while production had continued to increase. As a result stocks had accumulated and prices had been weak. This was particularly true in fiscal year 1983 (April 1983-March 1984). Milk production increased by 3.5 per cent and demand for liquid milk was stable. As a consequence the production of butter and skim milk powder increased 15 per cent. Continued weak demand was foreseen for 1984 with no decreases in production.

The representative of New Zealand indicated that dairy production for the first eight months of the 1983/84 season, which commenced on 1 June 1983, was slightly ahead of production levels for the previous season. Wetter than average conditions during the seasonal peak of October and

November slowed milk flow in comparison with 1982/83. Continued good rainfall and average sunshine hours during the mid-summer period had allowed farmers to enter the autumn phase of the season with pasture and cattle in very good condition. Autumn production was forecast to be greater than in recent years and total production for the season might be between 2.5 per cent and 3.5 per cent greater than for the 1982/83 season. The diversion of milk away from cheese production, in response to the situation in the Japanese market, had been successful. Production in the 1983 calendar year was estimated to have been about 30,000 tons less than that in 1982. In consequence of this and the increase in total milk production, butter and anhydrous milk fat production increased 6.5 per cent in butter equivalent terms.

The representative of Poland indicated that in 1983 milk production in Poland attained the level of 10,700 million litres, up 14.9 per cent on the 1982 figure. Out of this output 8,900 million litres came from the private farming sector, where the milk production had increased by about 15.5 per cent.

The representative of South Africa stated that the drought was continuing and that farmers were faced with serious debt problems. Milk production was expected to continue to increase, at least through the first six months of 1984, but much depended on weather conditions which render forecasting hazardous.

In Switzerland, milk deliveries had increased during the second half of 1983 and the increase had been particularly marked from autumn onwards. Since January 1984 the rate of increase had slackened. Deliveries had risen by 1.3 per cent in January and 2.4 per cent in February. In the coming months, deliveries of commercial milk ought to show a considerable drop, for a number of producers risked exceeding their individual quotas.

In Canada industrial milk production decreased quite markedly in 1983 as a result of changes made in dairy policy. For 1984 the national milk quota had been set at 47.6 million hectolitres, while over-quota levies would remain at the same level as had been set at 1 August 1983.

57. Under this agenda item the representative of Australia indicated Australia's concern as regards the EEC's exports of casein to the United States and Japan. The EEC's share of the United States market rose by 14.3 per cent between 1979 and 1983 (to 37.3 per cent of the market or 41.3 million pounds in the first ten months of 1983). During the same period the EEC's share of the Japanese market rose from 2 per cent to 15.7 per cent (2,756 tonnes). The export subsidy on casein was now 65 ECUs per tonne.

58. The representative of the European Economic Community said that about 13 per cent of the Community's milk output was used for the production of casein. Since a market existed for that product, the EEC had made certain

sales, particularly to Japan, but it did not believe that they had had a harmful effect on the world market.

General situation and outlook

59. The representative of the Economic Commission for Europe presented a summary of the situation and outlook for the dairy market in Eastern Europe and the USSR. At the beginning of 1984 cow numbers in Eastern Europe were about 0.4 per cent less than the year earlier; those in the USSR increased marginally to 43.8 million head. Preliminary indications of milk production suggested a 5-6 per cent increase in Eastern Europe and a 6 per cent increase in the USSR. Practically all of these increases were due to higher milk yields resulting from much improved pasture conditions and feed supplies (for example milk yields in the USSR increased by 7 per cent). These upward trends of production seemed to be continuing in early 1984; during the first two months of the year yields and milk deliveries were up 8 per cent in the USSR. It was uncertain as to whether this trend would continue. As regards butter production, a 10 per cent increase could be expected in Eastern Europe for 1984. A 13 per cent increase was experienced in the USSR in 1983, and a 10 per cent increase during the first two months of 1984. As regards butter imports, the developments as regards production would suggest a levelling-off of imports at about 100,000 tonnes.

60. The representative of the European Economic Community, referring to the secretariat's status report, said that certain points should have been brought out more clearly in order to give a true picture of the situation. In particular it should be pointed out that some countries had increased their exports or had announced their intention of doing so. The report stated that the EEC's food aid constituted about 15 per cent of its exports: it should be borne in mind that the volume of such aid had remained constant, whereas total exports had considerably declined. It should also be mentioned that the EEC imported dairy products, in spite of its problems in that sector. As regards the policies for the restriction of production which were being or were to be brought into force in a certain number of countries, the report expressed doubts as to their ability to bring about any real limitation of production in 1984, in view of the factors likely to stimulate production. Two factors were mentioned: the possible prices of feed concentrates and the repercussions of any devaluation of the dollar on feed products. He said that he did not share that pessimism. The programme put before the Council of Ministers included not only restrictions on production but also restrictive measures relating to cattle feed - one of the causes, in the EEC's view, of the increase in yields. That factor should be taken into consideration. Given the measures already taken or to be taken by a number of countries, it was possible to hope for a decline in production. As regards consumption, attention should be drawn to all the measures taken by the EEC and the United States to promote consumption; had those measures not been taken, there would probably have been a considerable drop in consumption. With respect to Community stocks, their increase was due essentially to the decline in exports.

61. The observer for the OECD said that according to the information available to the OECD on 1 March 1984 there would appear to be a trend towards an increase in the production of cheese. While a slowdown was forecast for the production of dairy products, together with a slight decline in stocks of most products, for cheese, on the other hand, a considerable increase in production was expected, at any rate in the OECD region, which could give rise to problems. The trend towards a rise in production was clear in the European Economic Community and in Sweden. In other west European countries, however, the slowdown was expected to continue. In North America, an increase in production was foreseen by Canada and by the United States where, however, the rise was expected to be smaller than in 1983. In Oceania, New Zealand also expected an increase. The OECD therefore considered that, as a result of policy changes regarding the manufacture of various products, the situation could become strained, the more so as stocks remained very large. Generally speaking, in 1984, a slowdown in growth or even a decline in milk production could be expected, particularly in the United States, as a result of the implementation of the programme decided on by that country's Administration. It had, however, been noted that that programme appeared inadequate to ensure the complete solution of the problem, and it might be necessary to prolong the period of its application. In the EEC, no decision had as yet been taken as to the measures to be carried out and it was not possible at present to forecast what effect any measures decided on might have in 1984. With regard to consumption, no marked development was foreseeable. The economic recovery in the OECD countries was, with certain exceptions, rather unevenly distributed and it had been observed that a ceiling had been reached in consumption in most member countries. Save in the event of new and financially costly programmes for the promotion of consumption, particularly animal consumption, a rapid decline in the very sizeable stocks which were on the market could not be expected. What was needed, therefore, was a generally accepted discipline in the management of those stocks in order to avoid harmful competition which would lead to the collapse of international prices. It was thus important not only for producers to be informed of the need for such an adjustment in production but also for the duration of the adjustment to be clearly fixed so that a lasting balance might be restored. The effect of temporary measures would be quickly wiped out by the permanent trend towards growth in production which was due primarily to technological improvements, the increase in yields and the progress, especially genetic progress, in cattle-raising concerns generally in most OECD countries.

62. The representative of the European Economic Community, referring to the development in the situation as regards cheese, said that he did not entirely agree with the observer for the OECD. As far as the EEC was concerned, the growth in production had shown a slackening, with an increase of only 1 per cent in 1983, a figure very much lower than those recorded in earlier years: for 1984, a rate of increase of 1.7 per cent was forecast. Furthermore, the EEC had introduced a certain discipline in the cheese trade, particularly in respect to those European partners with

which the EEC traded cheeses of different qualities. It had been possible to stabilize that trade thanks to those concerted disciplines.

63. The observer for the OECD said that the forecasts he had given had been based on data supplied by States members of the EEC, and he pointed out that in the price proposals now under discussion the new price ratio between milk fat and milk proteins could lead to an increase in the production of cheese as a result of a decline in the production of butter.

64. The representative of Norway indicated that contrary to what was said in document DPC/W/35 the evolution of imported feed concentrate prices in 1984 would not affect milk production in Norway in 1984. In fact the importation of feed concentrates into Norway was governed by a State monopoly. This monopoly controlled the prices of imported feed concentrates in such a manner as to prevent excessive fluctuations. There were, however, other factors which could hamper the production restriction measures which were to be introduced in 1984. Of particular significance was that there are exceptions to both the two-price system for milk and the bonus system (for example, for beginning producers, for producers which have experienced unusual circumstances, etc.).

65. The representative of the United States indicated that while it was possible that total cheese production in the United States might go up in 1984, the production of American-type cheese (i.e. that which is subject to purchase by the CCC) was expected to decrease. In January 1984, for example, this trend was evident. Therefore, that total cheese production in the United States might go up in 1984 should not be taken as a pessimistic sign for the outlook.

66. The representative of Finland expressed his optimism regarding the functioning of the Dairy Arrangement and the International Dairy Products Council. He indicated that in fact the world dairy market situation was not as bad as the trends in the dollar values of dairy products would indicate. In effect, he said, while stocks have accumulated consumption has actually stagnated, indicating that prices in real terms had not declined sufficiently to clear markets. In fact, in terms of Finnish marks it was doubtful whether prices had declined as much as had US dollar denominated prices.

67. The representative of Switzerland, referring to the comments on the doubts which the status report appeared to express as to the effectiveness of the restrictive measures of various countries, said that the two factors which the report suggested might stimulate production in 1984 applied only to some of those countries. Those factors did not affect Switzerland, where production was unlikely to increase to any great extent in 1984. There were contradictory views as to the possible development of the cheese situation: the report of the Committees of the Protocols forecast a slackening in the rate of growth of production, whereas the observer for the OECD had indicated that an increase in that rate was foreseeable. Switzerland expected its cheese production to remain stable. It would be advisable to discuss that question further so as to be able to provide the requisite information to those concerned.

68. The representative of the European Economic Community said that he shared the optimism expressed by the representative of Finland regarding the functioning of the Arrangement. As regards price trends in national currencies, he emphasized the relative value of a minimum price fixed in dollars, since trends varied from country to country depending on whether their currencies were strong or weak.

69. The observer for Canada said that, in his opinion, other delegations were being much too sanguine about the outlook for dairy markets during the coming year. Although he said that he could not agree with the statement in document DPC/W/35 to the effect that lower feed concentrate prices could stimulate milk production in Canada (because Canada operates a production quota system), he could not be very optimistic about the short-term international market situation. He noted, for example, that even if production in major countries was reduced by as much as indicated (which he said was by no means sure) this would still leave near record surpluses overhanging the markets. In view of the expected continuation of slack demand, he was not optimistic that market conditions would improve.

70. The Chairman noted that from the statements made there would appear to be a mixture of optimism and pessimism in the evaluation of the situation. Nevertheless, from what had been heard during the meeting this situation had to be considered with a degree of concern and no indulgence nor complacency could be afforded. The Council had heard about the various measures countries had undertaken or were in the process of discussing. These countries had a fairly optimistic outlook and expected some improvement. According to the forecasts made in the status report, there would not be a drop in production but rather a slowing down in the rate of increase. That was a development which could perhaps be looked at with a certain degree of satisfaction. On the question of measures to promote consumption, it could be said not only that they were of some use but that they were indeed essential and to be encouraged. In the circumstances, the Chairman called upon all the participants to abide by the rules of the Arrangement in the belief that in so doing its objectives would be further promoted.

E. Other business

71. The dates 27 and 28 September 1984 were fixed for the Council's next session; they would be confirmed later by the secretariat.

72. The Chairman said that he would prepare, on his own responsibility, a note on the current session, which would be circulated. (This note was subsequently issued as document L/5636.)