

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## International Dairy Arrangement

### INTERNATIONAL DAIRY PRODUCTS COUNCIL

#### THIRD SESSION

##### Report

Chairman: H.E. Mr. T.C. O'Brien

1. The International Dairy Products Council held its third session on 29 September 1980.
2. The Council adopted the following agenda:
  - A. Admission of observers under Rules 11 and 14 of the Rules of Procedure.
  - B. Review of the functioning of the Arrangement.
    - Report of the sessions of the Committees of the Protocols.
    - Replies to questionnaire 4.
    - Replies to questionnaire 5.
  - C. Evaluation of the situation in and outlook for the world market for dairy products (with a thorough discussion of the question of fresh milk and fresh milk products).
  - D. Other business.
3. In opening the session, the Chairman welcomed Uruguay as a new participant. The representative of Uruguay stressed the desire of his country to participate fully in the activities of an arrangement which was important, both for its objectives and for the machinery it employed.
  - A. Admission of observers under Rules 11 and 14 of the Rules of Procedure
4. In pursuance of Rule 11 of the Rules of Procedure, the Council had to decide on the participation of representatives of Mexico and Panama as observers. Taking account of the statement made by a participant at the June session with respect to Mexico (DPC/2, paragraph 3), the Council invited representatives of Mexico and Panama to observe the proceedings of the present session, it being understood that the question might be taken up again at subsequent sessions of the Council.

5. Under Rule 14 of the Rules of Procedure, the Council was informed of the requests made by OECD, UNCTAD, FAO and the Economic Commission for Europe and it agreed to invite representatives of those organizations to follow the discussions at the current session as observers. The Council decided to follow the same procedure at its next session, namely to invite those four organizations in advance to indicate the agenda items with respect to which they would like to be represented and to decide on such requests at the beginning of the session.

B. Review of the functioning of the Arrangement

Report of the second and third sessions of the Committees of the Protocols

6. The Council had before it the reports submitted 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 second session, which had been circulated as documents DPC/P/2, DPC/F/2 and DPC/C/2, respectively. An oral report was made by the Chairman of the Committees of the Protocols on their third sessions.

7. In that oral report, the Council was informed that at their third sessions, held successively on 24, 25 and 26 September 1980, the Committees had reviewed the replies to the questionnaires and taken note of the summary tables prepared by the secretariat. The Committees had also taken note of observations regarding the need for improvement in the data relating to food aid in the products covered by the Protocols. The Committees had engaged in an exchange of information concerning the situation in the market for the products covered by each of the Protocols. Among the important features of the current situation, the Committees had noted that in the United States milk production and stocks of certain dairy products were continuing to increase. They had also noted that international prices for products covered by the Protocols were continuing to firm, that prices for certain products such as skimmed milk powder had risen faster than those for other products such as whole milk powder, and that the continuing rise in prices for skimmed milk powder could have repercussions on its use for animal feed. With regard to stocks, it had been noted that despite the increase in United States stocks, aggregate stocks of skimmed milk powder and butter had declined from the levels of the preceding year. As to trade, the group of petroleum-exporting countries had continued to be the major growth area in the developing regions.

8. The Committees had discussed the agenda item relating to review of the levels of minimum prices (or minimum price) of products covered by each of the Protocols. In accordance with the provisions of Article 3:3 of each of

the Protocols, they had decided that the minimum prices specified in those articles would be increased, as from 1 October, to US\$500 per metric ton for skimmed milk powder and buttermilk powder, US\$800 per metric ton for whole milk powder, US\$1,200 per metric ton for anhydrous milk fat, US\$1,000 per metric ton for butter and US\$900 per metric ton for certain cheeses. Consequential changes had been made in the schedules of price differential according to milk fat content.

9. The Council took note of those reports.

Replies to questionnaire 4

10. The Council took note of the data received in replies to questionnaire 4. Participants were requested to make their replies as detailed as possible, in particular in respect of the foreign-trade breakdown and the definition of stocks.

11. On the latter point, the representative of the European Economic Community explained that, in the EEC, public stocks consisted of the totality of the product offered for intervention, and were thus equivalent to surplus stocks. Private stocks consisted of products needed in periods of reduced production and thus constituted a carry-forward stock. It was impossible to determine the amount of the stocks held in trade channels, but they did not affect the market situation. Intervention stocks were primarily intended for use in special sale measures within the Community; they could also be used for exports, which then took place at a price slightly above the intervention price so as not to impair trade. In view of the surplus situation, the market price of butter from private stocks was indirectly determined by release conditions for public stocks of butter. The representative of New Zealand noted that the stocks indicated for his country were entirely commercial stocks.

Replies to questionnaire 5

12. The Council took note of the data supplied by participants under questionnaire 5 and requested participants whose replies should have already been received to forward them to the secretariat as quickly as possible. Any change in replies already sent should also be indicated.

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

13. The Council had before it two documents prepared by the secretariat in pursuance of Article IV:1(a) of the Arrangement and Rules 29 and 30 of the Rules of Procedure, namely a status report on the world market for dairy products (document DPC/W/3 and Corr.1) and a note on food-aid operations relating to dairy products (document DPC/W/4/Rev.1).

14. The Chairman pointed out that the note on food-aid operations was incomplete and that certain data, which seemed to be available in other sources, had not been communicated to the secretariat. He appealed to participants to do everything to comply with the relevant provisions of the Arrangement and the Rules of Procedure, by supplying the basic information required. The representative of the European Economic Community associated himself with that appeal and stressed that analysis of such data was required under the Council's rules and in particular under Article V of the Arrangement. Mentioning, in particular, transactions by the United States, he drew attention to the fact that any significant transaction should be notified in advance and that the Council should also be informed of past and current transactions.

15. The representative of the United States said that he would verify and possibly supplement the data concerning food-aid transactions by the United States under Public Law <sup>480</sup>, Titles I and II, reported in document DPC/W/4/Rev.1. He explained that such shipments were negotiated on a case-by-case basis and could not be notified in advance, but the data could be supplied after the end of the year. He did not think that any deliveries were being made under Title I of Public Law 480 or that commercial sales, mainly to Mexico, were made under a credit programme. Generally speaking, the Commodity Credit Corporation gave credit guarantees for agricultural products but not credits by themselves.

16. The representative of the European Economic Community indicated that he would bring some of the data contained in the status report (document DPC/W/3) up to date. He noted that in 1979 the size of the dairy herd in the EEC had declined slightly; at the beginning of 1980, it had totalled 25.3 million head, i.e. about 0.2 per cent less than at the beginning of 1979. As to skimmed milk powder, EEC exports (including food aid amounting to 179,000 tons) had totalled 636,000 tons in 1979, an increase of 52 per cent above 1978. The decline in EEC overall internal consumption in the first quarter of 1980 was due, inter alia, to the elimination of the special measure relating to sales, at greatly reduced prices, of skimmed milk powder to the compound-feed sector for swine and poultry. Skimmed milk powder tenders for that sector had been eliminated in October 1979 and, since March 1980 skimmed milk powder was no longer included in those feeds, resulting in a considerable reduction in internal consumption. The same factor had affected stocks, which had not increased very much. According to the latest available figures on the situation at the end of September 1980, stocks of skimmed milk powder had amounted to 246,500 tons as against 392,000 tons the previous year, representing a reduction of approximately 156,000 tons. The declining trend in stocks of butter had continued. Public stocks currently stood at 191,700 tons as against 343,000 tons the previous year, or a decline of somewhat more than 150,000 tons. Release of private stocks had been started in the last ten days, and the current level was 207,000 tons as against 260,000 tons the previous year. Butter production had thus far been 1.9 per cent lower than the previous year, and skimmed milk

powder production 2 per cent lower. According to latest estimates, production of casein had increased in 1979 to 81,000 tons. It had continued to increase in 1980 and might amount to nearly 100,000 tons.

17. In reply to a question from the representative of New Zealand concerning the outlook for the next few months, the representative of the European Economic Community, after pointing out how difficult it was to forecast stocks, indicated that, subject to confirmation, by the end of the year, public stocks of butter might amount to approximately 150,000-180,000 tons. Private stocks, mainly intended to cover needs during the winter months, might amount to approximately 100,000 tons. Stocks of skimmed milk powder should stabilize at perhaps slightly lower than their present level, or approximately 230,000-250,000 tons. For butter, special sale measures were continuing in the EEC, in particular including further disposal of approximately 180,000 tons, mainly in the form of the special sale measure in the sector of pastry cooks' and bakery products, or approximately 100,000 tons sold annually at a price slightly higher than that of competing vegetable fat, as well as approximately 35,000 tons for the ice-cream sector. The remaining 40,000 to 50,000 tons were mainly for measures of a social character (sales to non-profit-making organizations, the army and similar forces, sales for processing into a product competing with vegetable fat for cooking purposes). EEC exports of milk fat (in terms of butter equivalent) should be approximately equivalent to those of 1979, namely 450,000-480,000 tons (including approximately 60,000 tons for food aid). Exports of skimmed milk powder should amount to 600,000-650,000 tons (including 140,000 tons for food aid). The demand for casein was currently relatively strong both inside and outside the Community, and production might increase to 100,000 tons. The EEC had reduced its aid relating to liquid skimmed milk for the manufacture of casein, by ECU 0.75 per 100 kgs. to ECU 5 per 100 kgs. as from 1 August 1980.

18. The representative of New Zealand indicated that the situation of casein had been affected by the prevailing adverse economic conditions.

19. The observer for the OECD noted, with regard to cheese, that production and consumption had risen in most countries but that in certain countries the market did not seem to be as firm as in the past. He pointed out that milk production continued to rise (there were still surpluses in the EEC and surpluses had emerged in the United States, where stocks were increasing), and that while international prices were high, they might not be able to hold that level. In view of the surplus-dominated structure of the market, a key question in the international situation of dairy products was the possible repercussions on consumption of the relatively high prices in the international market.

20. The representative of the United States outlined the programmes for domestic disposal of dairy products in his country. Certain quantities of stocks were being disposed of under the school lunch programmes. The most important welfare programme in the United States was the food-stamps programme intended for citizens whose income was below a certain level. They could obtain food products under that programme, including dairy products inter alia.

21. The observer for Canada reported that the production of evaporated whole milk had increased by 28 per cent in the first half of 1980 and that exports had amounted to 49,300 tons. The target returns for industrial milk had been increased to Can\$34.61 per hectolitre, as from 1 August, or a rise of 3.9 per cent. The Federal subsidy had been fixed at approximately Can\$6.00 per hectolitre for industrial milk for domestic requirements up to 44.1 million hectolitres, and for milk under the export-quota programme up to 2.2 million hectolitres. As from the same date, the levy on deliveries within the quota had been fixed at Can\$2.80 per hectolitre. Total deliveries of milk and cream (in terms of milk equivalent) in 1980 should reach 7.5 million tons, or an increase of 5 per cent: 6 per cent for industrial milk and 2.5 per cent for liquid milk.

22. The representative of Uruguay supplied certain data concerning the situation in his country. Deliveries of milk had increased by 10-15 per cent in 1979. Forecasts for 1980 were as follows: Production - 480 million litres; consumption - 220 million litres. Production of milk powder - 3,860 tons; consumption - 800 tons; 3,000 tons - available for export; stocks - none on 25 September. Production of butter and anhydrous fat - 6,500 tons; consumption - 3,000 tons; 3,500 tons - available for export; stocks - 2,000 tons on 25 September. Production of cheeses - 13,200 tons; consumption - 8,700 tons; 4,500 tons available for export; stocks - 2,000 tons on 25 September. Production of casein - 2,000 tons, entirely available for export; stocks - 600 tons on 25 September. Production of caseinates - 100 tons, entirely available for export; stocks - none on 25 September. The domestic market was completely supplied from Uruguayan production and the volume of trade was increasing. There were some difficulties, however, with butter and cheese.

23. The observer for the Economic Commission for Europe drew the attention of participants to the situation of the milk and dairy products sector in the countries of Eastern Europe, on the basis of data supplied by those countries. Milk production had increased by 1 per cent in 1979, but only Bulgaria and Hungary, which were the smallest producers of the region, had recorded significant increases. The rise in Eastern European production had been due mainly to increased productivity, since the size of the dairy herd had remained practically unchanged. There was a constant increase in productivity in Bulgaria and Hungary. Production had continued to decline

in the USSR, where productivity had decreased owing to poor supply conditions due to the weather; the situation had persisted at the beginning of 1980. In eastern Europe, with the sole exception of the German Democratic Republic, the share of milk production going into cheese production seemed to have been greater than that for butter. In the USSR, the production of butter had declined by 4 per cent and of cheese by 1 per cent, declines compensated by imports from western Europe (approximately 150,000 tons in 1979). The same applied to Poland, a traditional exporter of butter, whose exports had declined by 14 per cent in 1978 while imports had increased by 70 per cent. The situation had not improved in 1979, with production declining by 2 per cent and exports by 80 per cent, and imports increasing by 60 per cent. A marginal decrease in the size of the dairy herd had been recorded in eastern Europe at the beginning of 1980, except in Bulgaria and Hungary and in the USSR, where it had increased by 1 per cent. Milk production in the first months of 1980 had increased by 1 per cent in Bulgaria, 6 per cent in Czechoslovakia, 7 per cent in Hungary, and 11 per cent in Poland. Milk production in State and collective farms in the USSR had declined by 6 per cent between January and June 1980, as had productivity and the production of butter; the dairy herd had increased in June by 0.3 per cent. The situation in the USSR might improve depending on weather conditions; and, under favourable conditions, Poland might again become an exporter of butter.

24. The representative of the European Economic Community said, with regard to the statement reflected in paragraph 17 of the report of the Council's June session (document DPC/2, page 4), that the reference to the European Economic Community was alone responsible for price setting was not acceptable. He pointed to the rôle of demand in price formation and to the fact that in many cases the share of the EEC in the world market for dairy products did not exceed 50 per cent.

#### Fresh milk and fresh milk products

25. As agreed at the June session, the Council proceeded to a thorough discussion of the question of fresh milk and fresh milk products, in connexion with which a number of participants had communicated information supplementing their replies to questionnaire 4.

26. The representative of Japan stressed that Japanese consumption of fresh milk for drinking had increased. It had amounted to 3,355,000 tons in 1976 (April-March fiscal year), an increase of 5.5 per cent over the preceding fiscal year, and to 3,911,000 tons in 1979 (April-March fiscal year), an increase of 4.8 per cent over the preceding fiscal year. During January-June 1980, it had increased by more than 4 per cent over the corresponding period of 1979. There had thus been a regular rise in consumption, which might have slowed down owing to weather conditions in that summer, but the trend was expected to resume. Japanese production of fresh milk had also increased greatly. In 1976 (April-March fiscal year), it had amounted

to 5,369,000 tons, an increase of 7.2 per cent over the preceding fiscal year; and in 1979 (April-March fiscal year) it had reached 6,465,000 tons, an increase of 3.3 per cent over the preceding fiscal year. The rate of increase had thus declined. He pointed out that stocks of dairy products were high: 81,000 tons of skimmed milk powder, or approximately 8.7 months of domestic consumption; and approximately 32,000 tons of butter, or 6.3 months of domestic consumption. Because of the situation in the dairy products sector in Japan, efforts were being pursued to restrain production.

27. The representative of New Zealand said that liquid milk, butter and cheese were the three major dairy products consumed in his country. Per capita consumption of liquid milk and cream was one of the highest in the world, at approximately 159 litres in the 1979/80 season; consumption had been declining in recent years, mainly because of the increasing retail price of milk which was currently 18 cents per 600 ml, as a result of increased costs and the reduction of Government consumer subsidies. For many years the domestic price of milk had been subsidized but budgetary constraints had led to a reduction in the subsidies, and the current level of the Government subsidy to the town milk price was \$30 million per annum. Butter consumption was high, but had also been trending downward because of higher prices and increased availability of margarine. The retail price - 79 cents per 500 grs. pack - had been stabilized by subsidies until 1 April 1980, when they had been removed. A price increase was therefore to be expected, with stronger competition from margarine.

28. The very low price of butter in New Zealand had been accompanied by high per capita consumption, reaching approximately 15 kgs. in 1975/76 and 14.2 kgs. in 1978/79. Per capita consumption of liquid milk had also fallen off, from about 177 litres to 162.5 litres for the same years. On the other hand, per capita consumption of cheese had increased by more than 60 per cent over that period as a result of a marketing campaign; its current level was 9 kgs. and the upward trend seemed to be continuing. No detailed statistics were available on consumption of fresh milk products, high consumption of liquid milk having been no incentive to its development. Nevertheless, in early 1980 the Dairy Board had been encouraging production of UHT flavoured milk and it was expected to increase. There was also a small but growing market for products such as cottage cheese, cream cheese and low-fat cheeses which had previously not been available in the New Zealand market.

29. The representative of the United States said that his country's milk production had declined greatly over the past twenty-five years. In 1954 production had reached 57.7 million tons, as against 55.4 million tons in 1978. Over the past eighteen months that production had risen - at a rate exceeding 3 per cent in the first six months of 1980, and for the year as a whole output was expected to reach 57.8 million tons, i.e. an increase by about 3 per cent over the preceding year. The stagnation in milk production

had been accompanied by a substantial reduction in the number of milch cows, from 21.6 million in 1954 to 10.8 million in 1978. Nevertheless, yield per cow had risen from 3,681 kgs. in 1954 to 5,109 kgs. in 1978 and 5,230 kgs. in 1979. In relation to total milk production, the proportion consumed in the liquid state had remained practically unchanged: 43 per cent in 1954, 42 per cent in 1978. On the other hand, there had been a great change in the relative share of fresh milk and skimmed milk. In 1954, 17.5 million tons had been used in the form of plain whole milk (at which time low-fat milk represented less than 1 per cent of sales of plain whole milk); in 1979, plain whole milk had accounted for 14.9 million tons, and low-fat milk for 6.9 million tons. Per capita sales of plain whole milk had declined from 119 kgs. in 1954 to 68.3 kgs. in 1979, while those of low-fat milk which had been negligible in 1954 had reached 31.7 kgs. in 1979. Sales of skimmed milk for human consumption had increased from 2.9 kgs. per capita in 1954 to 5.5 kgs. in 1979. In the same years, the following sales statistics had also been recorded: flavoured milk and drinks (milk-based drinks): 3.3 kgs. and 4.9 kgs., buttermilk 3.8 kgs. and 1.9 kgs. yoghurt 0 and 1.2 kgs., light cream 1.1 kgs. and less than 150 grs. Those considerable changes could not be attributed solely to purely economic factors such as prices, and demand or income-elasticity, but were also the result of greater awareness of dietary problems. The age composition of the population might also be examined as a possible relevant factor.

30. The representative of Australia said that the first signs of a similar trend could be seen in his country. Production, distribution and retailing of liquid milk and many other fresh products, such as yoghurt, were within the responsibility of the State governments. Consumption of butter had been declining but seemed to have levelled off and was even increasing slightly due to promotional activities by the Australian Dairy Corporation and private marketing companies. Cheese consumption was not very high; after a period of steady growth (by about 6 per cent over the past two or three years) it had slowed down in the past twelve months (by 1 to 2 per cent), in particular because of competition from meat. A promotion campaign at national level has been launched for liquid milk. Milk for direct consumption accounted for one third of total milk production i.e. 1,534 million litres in 1975/76 and according to estimates 1,665 million litres in 1980/81, an increase by 8.5 per cent. That increase was related to the population increase because per capita consumption of fresh milk had declined from 128 litres in 1968/69 to 102 litres in 1975/76. Over the past two years, a promotion campaign in favour of flavoured and plain fresh milk had boosted per capita consumption by approximately three litres, or 3 per cent, and that trend ought to be maintained. The annual cost of those promotion activities had been about \$2 and \$3 million; they had yielded significant results but there was currently a reaction on the part of the soft drink companies. Information regarding other fresh milk products was very limited. Yoghurt was a new product in Australia and its marketing was estimated to be rising. The total annual value of sales was currently some \$40 million. It would be necessary to

ascertain consumer reaction to other new types of products, such as pre-packaged dairy desserts. Consumption of ice-cream had been unchanged for some ten years past and had even declined slightly in the last two years because of higher prices and competition from other desserts.

31. The representative of New Zealand said that in his country, on the other hand, ice-cream consumption had increased, from 16.6 litres per capita in 1975/76 to 18.2 in 1977/78. In 1978/79 per capita consumption had reached 17.6 litres. Although a broader range of products had come into the dessert trade in recent years, ice-cream sales had remained firm in New Zealand.

32. The representative of Norway said that per capita consumption of whole milk and whole milk products was very high in Norway, reaching 182 litres for the current year, and 7.5 litres in respect of cream. In the first part of the 1970's consumption had slipped back, but it had risen again in recent years. The increase had been by 1.4 per cent in 1979 and 2.4 per cent in the first eight months of 1980. In a report to Parliament in 1975, the government had indicated its objective of reducing consumption of fresh whole milk and increasing that of skimmed and low-fat milk. From 1975 to 1978 that consumption had increased considerably. In 1979 and the first eight months of 1980, however, it had slowed down, probably because of a change in consumer considerations; consumption of butter in particular had increased considerably in the past two years. Yoghurt consumption was not very high - 2 litres per capita - and although it had been rising over the past five years, could be expected to drop back. On the other hand, consumption of other sour milk products was fairly high: kephir 8 litres per capita, skimmed kephir 5 litres, while consumption of sour cream, a traditional product in Norway, stood at 1.5 litres per capita. Cheese consumption had increased from 10 kgs. per capita in 1975 to 12 kgs. in 1979 and had increased by 9 per cent in the current year, when it was in a favourable competitive position.

33. The representative of Finland said that per capita consumption of liquid milk in his country was the highest in the world, reaching 230.5 kgs. in 1979 as against 245.9 in 1975, thus reflecting a decline at the rate of 1.6 per cent per annum. Consumption of sour milk was widespread and in recent years had been stable at a level of 38 to 39 kgs. per capita. Per capita consumption of yoghurt, a relatively new product, had increased from 6.1 litres in 1975 to 7.8 litres in 1979, i.e. an annual increase rate of 7 per cent. Per capita consumption of cream was stationary at 6 kgs. per annum while that of ice-cream was also virtually stationary: 8.4 kgs. in 1975, 8.5 kgs. in 1979.

34. The representative of Sweden said that consumption of low-fat milk (0.5 per cent fat content) had increased since its introduction some ten years ago, but seemed now to have levelled off with a share of 36 to 37 per cent, the balance of consumption comprising milk with 3 per cent

fat content. Total consumption of liquid milk had declined slightly in 1979, by 0.3 per cent, to 160 kgs. per capita. With respect to cultured and acidified milk products, regular fermented milk still accounted for the major part of consumption. However, the assortment of those products had been broadened and simultaneously there had been an increase in consumption. That increase had reached 5 per cent in 1979, and would be slightly lower in the current year. Annual per capita consumption of acidified products had totalled 23 kgs. in 1979. Cream consumption had been up 5 per cent in 1979, to 7.7 kgs. per capita.

35. The representative of Switzerland noted that trends in per capita consumption were similar to others already reported: consumption of fresh milk had declined in the 1970's from 130 to 119 kgs., while that of milk products had increased. Annual per capita consumption of cheese had risen from 10 to 13 kgs. while cream consumption (at nearly 6 kgs.) had shown an increase by nearly 50 per cent and that of yoghurt (13.5 kgs.) by more than 50 per cent. Per capita consumption of butter had remained stable at 7 kgs. Per capita consumption of unpackaged milk had declined by one half in the 1970's while that of pasteurized and in particular standardized (i.e. partly skimmed) milk had increased substantially. Sales of the latter had trebled and were currently at the level of 30 kgs. That trend might be attributable to dietary and financial concerns. A charge applied since spring 1980 on partly skimmed milk might have some effects on consumption.

36. The representative of the European Economic Community said that in the past five years an annual increase of 0.9 per cent had been recorded in deliveries of milk used for production of fresh milk and liquid milk products (cream, yoghurt, desserts, etc.). That increase did not, however, reflect any rise in total consumption but corresponded to the decline in direct sales at the farm. The share of deliveries to dairies now accounted for 92 per cent of production. Taking together milk sold at the farm and fresh products sold by dairies, a decline by 0.1 to 0.2 per cent per annum (in milk equivalent) had been recorded over the past four or five years. Consumption of whole milk had declined considerably at an annual rate of approximately 0.5 per cent but still accounted for about 65 per cent of total consumption of fresh products. Consumption of semi-skimmed and skimmed milk now represented approximately 12.5 to 13 per cent of that consumption, as against only 8 per cent in 1974, i.e. an annual increase by 1 per cent. Cream consumption had been rising steadily in recent years at an annual rate around 4 per cent. Total annual consumption currently stood at 625,000 tons. The decline in milk consumption was therefore offset by an increase in consumption of other fresh products. For the EEC as a whole, total annual per capita consumption of fresh products (in milk equivalent) was approximately 105 kgs. Total consumption of concentrated milk was declining by 1 to 1.5 per cent annually, and was currently at the level of 800,000 tons.

37. Since 1977/78, the EEC had undertaken a promotion programme for milk consumption in schools. It financed 100 per cent of the value of the raw material, an additional national contribution was paid, so that the pupil paid only 35 per cent of the normal price. Since that measure, consumption by young people, which had been declining, had increased substantially, by 60 per cent in the first year; the measure mainly concerned whole milk (a little over 80 per cent of the total), the balance consisting almost exclusively of semi-skimmed milk.

38. The observer for Canada said that sales of liquid milk in the second quarter of 1980 had totalled 252,000 tons for standard milk, 336,000 tons for milk with 2 per cent fat content and more than 24,000 tons for skimmed milk, i.e. a total of 613,000 tons. The general trend in liquid milk consumption had been an average annual increase of 2 to 3 per cent in the period 1975-1979. The increased consumption of milk with 2 per cent fat content had resulted in increased availability of milk fat. Other promising developments were increased demand for UHT milk in certain regions of Canada (in particular isolated regions) and rising demand for flavoured milks as an alternative to soft drinks. In the past ten years, the number of fluid milk producers has increased from 18,500 to 20,600. The number of industrial milk producers has declined in the same period from 102,000 to 50,600. The fluid milk producers are under the jurisdiction of the provinces while the industrial milk producers are also under the jurisdiction of the Federal Dairy Commission.

39. The representative of Australia said that in total utilization of whole milk, one third comprised liquid whole milk, of which 86 per cent was pasteurized. Marketing of UHT milk was a fairly recent development but was increasing rapidly, resulting in keener competition in the fresh milk market. The representative of the United States said that there was no significant market for the product in his country; the representative of Finland noted that UHT milk had been introduced in the Finnish market a few years previously, with no great success. The representative of the European Economic Community said that UHT milk accounted for an important share of the fresh milk market and had been developing over the past ten years or so. The share of pasteurized milk production, which had been approximately 80 per cent in 1975, had declined to 70 per cent of total fresh whole milk for direct consumption. That reduction had been accompanied by an increase in consumption of UHT milk (from 8 per cent five or six years ago to 17 per cent currently) which was continuing to rise. The share of sterilized milk had levelled off at approximately 12 per cent of total consumption of fresh milk. A similar trend could be seen for semi-skimmed and skimmed milk; total consumption was increasing considerably and production of the pasteurized product was still rising in absolute terms. UHT milk production had increased ten-fold in six years. In reply to a remark by the observer for the OECD, who pointed out that trade in liquid milk might be expected to develop as a result of the long-storage possibilities of UHT milk, the

representative of the European Economic Community said that while there was trade in UHT milk within the Community (approximately 2 million tons), deliveries to third countries were only in the vicinity of 95,000 tons because of transport costs; most exports were in the form of concentrated milk.

#### Status report

40. The Council had decided at its June session that the status report prepared by the secretariat would be revised in accordance with the Council's comments and made available in the course of the month of October for wider distribution than would normally be given to Council documents. After having enquired as to the various forms in which the document could be issued by the secretariat, and in order to ensure that it was made available as soon as possible, the Council had agreed that the secretariat should have responsibility for revising and presenting the document, on the understanding that it would be distributed generally and with no restriction.

41. The representative of New Zealand invited participants to consider in the coming months what improvements could be made to the next status report. It might be useful, in particular, to include some graphs to illustrate the tables and underline particularly important factors, such as support prices.

#### D. Other business

##### Participation of Canada

42. The representative of the European Economic Community enquired whether there had been any change in Canada's position regarding its participation in the Arrangement or provisional application of the latter. The observer for Canada said that the question was being examined and meanwhile Canada was retaining observer status, while continuing to contribute to the flow of information which was taking place within the Council and the committees; the representative of the European Economic Community noted that in view of the importance of Canada's participation, the Community would feel obliged to pursue the matter further if no decision was taken before the Council's next session.

43. In reply to a question regarding interpretation by the secretariat of the provisions of the Arrangement in respect of provisional application, the secretariat (Mr. Lucq) replied that the Council alone had authority to determine any such interpretation, since no provision of the Arrangement did so. By definition, provisional application was not subject to the provisions regarding acceptance, and one could therefore infer that the formalities regarding withdrawal were not applicable either. The representative of the

European Economic Community noted that that interpretation would be acceptable for the Community if it allowed Canada's participation in the Arrangement. The representative of the United States said that that interpretation should be studied.

Programme of sessions in 1981

44. The representative of New Zealand proposed that the dates for sessions in 1981 be set on a preliminary basis. A draft programme could be established in consultation with participants, and the provisional dates could be adopted in December when the committees met. While approving that suggestion in principle, the representative of the United States pointed out that account would have to be taken of the dates of meetings of the International Meat Council, and the representative of Australia underlined that it was appropriate to leave the Council to make the decisions within its responsibility and not to modify the responsibilities of the various organs of the Arrangement. Taking into account those remarks, the Chairman stated that the programme of sessions would be proposed in December when the committees met and would take into consideration the various parameters limiting the choice of those dates, i.e. the relevant provisions of the Arrangement and the provisions of the rules of procedure regarding replies to the questionnaires, inter alia.

Other matters

45. With respect to the Council's report to the CONTRACTING PARTIES, it was agreed that the Chairman would prepare and present, under his own responsibility, a report on the operation of the Arrangement since its entry into force.

46. The Chairman stated that he would also prepare and have circulated, under his own responsibility, a note on the present session. A considerable amount of work had been done, in particular during sessions of the committees. The results achieved, and in particular the decision to increase minimum prices, had shown the spirit of co-operation existing among participants and their desire to contribute to the satisfactory operation of the Arrangement. Maintenance of that political will to co-operate, which had allowed the Arrangement to make a good start, would enable it to pursue its activities fruitfully.