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International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

NINTH SESSION

Draft Report

Chairman: Mr. R. Long

1. The International Dairy Products Council held its ninth session on 29 September 1983.
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
 - Reports of the sessions of the Committees of the Protocols
 - Replies to Questionnaires 4 and 5
 - C. United States sales to Egypt: continuation of the discussion held at the special meeting of 12 September 1983
 - D. Evaluation of the situation in and outlook for the world market for dairy products
 - E. Report to the CONTRACTING PARTIES

F. Other business

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

3. In accordance with 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.

4. 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.

B. Review of the functioning of the Arrangement

Reports on the fourteenth and fifteenth sessions of the Committees of the Protocols

5. 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 fourteenth sessions, circulated as documents DPC/P/20, DPC/F/20 and DPC/C/20 respectively. An oral report was made by the Chairman of the Committees on their fourteenth sessions, held consecutively on 26 and 27 September 1983, and on the joint meeting held on 28 September 1983.

6. In this report it was indicated that after examining the 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 Milk Fat noted that production of butter, which had increased in 1982 compared with 1981, had continued to

increase in the first half of 1983 and that further growth was expected for the year as a whole. The slowing down of international trade noted in 1982 was accentuated in the first half of 1983. Owing to the weakness of demand, the trade in butter would show a further decline for the year as a whole. Demand from developing countries, including the OPEC countries, would continue to weaken, while the imports of the USSR and Eastern Europe would reach a ceiling or decline. Total consumption of butter declined in 1982 and in the first half of 1983, in spite of the increases reported by some countries. Total stocks of butter on 1 July 1983 were very much greater than on 1 July 1982, the increase being particularly marked in the EEC; the stocks held by the United States were also large. Total stocks of butter at the end of 1983 will probably be greater than at the beginning of the year. The level and trend of those stocks and the problems raised by their disposal are affecting the international market situation in a way that causes concern. International butter prices weakened during the first half of 1983. During the third quarter they continued to fall and were within a range of US\$1,680 and US\$1,750 per ton f.o.b. in September. However, some sales were reported to have been made at prices between US\$1,550 and US\$1,670 per ton f.o.b. and offers were reported at average prices of about US\$1,300 per ton f.o.b. Production of anhydrous milk fat by the EEC and New Zealand, which had decreased substantially in 1982, increased during the first half of 1983. Their exports had decreased substantially in 1982. According to the answers to the questionnaires, however, EEC exports increased during the first half of 1983, whereas those of New Zealand continued to decline. International prices of anhydrous milk fat, which had weakened during the first half of 1983, continued to fall and were between US\$1,850 and US\$1,940 per ton f.o.b. towards the end of the third quarter.

7. The Committee of the Protocol Regarding Certain Milk Powders had noted that the increase in production of skimmed milk powder, which had been substantially greater in 1982 than in the previous year, had continued or even speeded up during the first half of 1983. Production during the year

1983 as a whole will therefore be much greater than in 1982. The international trade in skimmed milk powder slackened in 1982 for the second year running. According to provisional data communicated to the secretariat, exports for the first half of 1983 remained relatively stable. It was noted that food-aid exports had increased. Consumption of skimmed milk powder was reported to have decreased in 1982, though the trends had differed in different countries. During the first half of 1983, however, increases in consumption were reported in certain countries. Total stocks of skimmed milk powder on 1 July 1983 were very substantially greater than on 1 July 1982, the increase being particularly marked in the EEC. Stocks also increased in the United States. That increase had continued during the third quarter. It was pointed out, however, that present stocks in the United States were smaller than indicated by earlier projections. It was also reported that Canadian stocks had shown a decrease. Export prices, which had weakened during the first half of 1983, had fallen further to within a range of US\$700 to US\$770 per ton f.o.b. at the end of September. It was noted that offers had been made at about US\$650 per ton f.o.b. for marginal quantities. The level of stocks continues to depress the market. Nevertheless, making allowance for other economic factors on the world market, it may be hoped that in the coming months export prices will stabilize at their present level, namely, US\$700 to US\$770 per ton f.o.b. The production of whole milk powder, which had increased somewhat in 1982, is reported to have declined in the first half of 1983. According to the answers to the questionnaire, the fall in exports recorded in 1982 continued or even accelerated in the first half of 1983, the trends differing according to the country concerned. Demand remains weak. The developing countries have reduced their purchases, which had increased rapidly up to 1981. International prices for whole milk powder, which had weakened during the first half of 1983, fell further to within a range of US\$1,030 to US\$1,200 per ton f.o.b. towards the end of the third quarter.

8. The Committee of the Protocol Regarding Certain Cheeses had noted that cheese production increased in 1982 at a slightly slower rate than in 1981.

The rate of growth was reported to have continued to slow down in 1983. The international trade in cheese remained generally active in 1982. Its growth slowed down during the first half of 1983, however; according to the answers to the questionnaire, cheese exports remained relatively stable during the first half of 1983. Total consumption of cheese again increased in 1982. However, the increase is reported to have slowed down or even stopped in some countries. Consumption of certain varieties of cheese is nevertheless increasing satisfactorily. On 1 July 1983, stocks of cheese in most of the main producing countries were greater than a year earlier. A large increase was recorded in stocks held by the United States. Nevertheless, it was pointed out that present stocks were smaller than indicated by previous projections. As regards international prices, prices for ordinary first-quality Cheddar are reported to be within a range of US\$1,300 to US\$1,500 per ton f.o.b. at present, which is a slight increase over the prices obtaining towards the end of the first half of 1983. The Committee nevertheless pointed out that substantially lower prices had been mentioned and that it was going to receive information on that subject. The Committee noted that New Zealand had invoked the provisions of Article 7, paragraph 2 of the Protocol, and noted the transactions effected under those provisions. It also noted that any further recourse to the provisions of that paragraph would be notified to it in advance.

9. The Committees had discussed the agenda item relating to the review of minimum prices (or minimum price) of products covered by the protocols. Several factors which would justify an increase in the minimum prices had been mentioned, in particular the increase in costs to producers. It had been noted, however, that having regard to the present situation on the international market an increase in the minimum prices could not currently be considered desirable. These prices therefore remain unchanged.

10. The Committees had stressed that the world market situation for dairy products was serious and that for certain products, such as cheese, it might deteriorate further. They had noted that the utmost vigilance was

needed and had expressed the hope that the trend of the market situation would not necessitate recourse to the provisions of Article 4 of each protocol. The Committees had stressed the decisive importance of strict compliance with all the provisions of the Arrangement in order to keep market conditions as stable as possible.

11. During a joint meeting held on 28 September, the Committees had proceeded to a survey of government measures to expand domestic consumption of dairy products, on the basis of information furnished by delegations interested in that work. The Committees agreed to continue the survey. With a view to easier evaluation of the information furnished, they will examine, on the occasion of their sessions in December 1983, a first compilation which the secretariat has been asked to undertake with the assistance of delegations.

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

13. The representative of New Zealand drew attention to the arguments advanced in the Committees, according to which there was a substantial justification for an increase in minimum prices, having regard to a number of the criteria laid down in the Arrangement. Nevertheless, a number of participants had expressed the view that, having regard, in particular, to the state of the market and also the currency movements, it would not be appropriate to alter the minimum prices at that stage. Having regard to the long-term evolution of the Arrangement, it was important that what had been decided that year should be understood and should not prejudice subsequent consideration of the minimum prices. With regard to the reference to Article 7, paragraph 2 of the Protocol Regarding Certain Cheeses, in connection with the sale of aged, redundant, low-quality cheese below the minimum price, New Zealand had pointed out, at the Committee's session, that it would need to continue to operate under that clause and that the transactions thereunder would probably reach the figure of 2,000 tons indicated in its interpretative statement appended to the Arrangement. That information would be communicated to the secretariat in writing.

Replies to Questionnaires 4 and 5

14. The Council took note of the data furnished in reply to Questionnaires 4 and 5 and requested participants to communicate to the secretariat, as soon as possible, their replies to those questionnaires under Rule 23 of the Rules of Procedure. The Chairman pointed out that for the updating of the inventory, which was currently being revised, it would be useful if participants would communicate, within the time-limits stipulated in Rule 23, not only any changes in the policies and measures described in the inventory, but also, if there had been no changes, a note to that effect.

15. The representative of New Zealand said it was important that the discussions in the Council and the committees should not be based solely on information furnished in reply to the questionnaires, so that the Council could make an evaluation of the market situation that was qualitative, not only quantitative or analytical. To that end, it was necessary to be kept up-to-date with developments in thinking on policies in the dairy industry in participating countries. Thus, as the work of the International Dairy Arrangement progressed, it would be possible to move further into qualitative assessment and, on occasion, as foreshadowed in the Arrangement, to formulate views and recommendations to participating countries. In the opinion of his delegation, activities under the Arrangement were progressing satisfactorily and well, but improvements were always possible and might in future take the form he had just indicated.

16. The Council took note of those comments and observations.

C. United States sales to Egypt: continuation of the discussion held at the special meeting of 12 September 1983

17. The Chairman referred to the special meeting held by the Council on 12 September 1983, at the request of the European Economic Community,

because of the concern caused by United States sales to Egypt which, in its opinion, were prejudicial both to the European Economic Community and to the stabilization of the world market for dairy products, on account of the non-observance by the United States of the minimum price provisions of the International Dairy Arrangement and of the provisions of Article 10 of the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade. Other countries shared the concern at the threat to the stability of the international dairy market posed by those sales. At the meeting, information was furnished on the action that had been taken. The United States delegation had stated that its country had not violated its international obligations, either under the International Dairy Arrangement or under the Agreement on the Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade or any other obligation under the General Agreement. The European Economic Community had requested the adoption by Council of a recommendation which would contain a remonstrance or a solemn appeal to the United States to refrain from any repetition of such action and would invite all the participants in the Arrangement to reaffirm their commitment to pursue the objectives and strictly observe the provisions of the International Dairy Arrangement and all other commitments under the General Agreement on Tariffs and Trade. The Council had agreed to continue the discussion at its present session. The Chairman indicated that for its examination of United States sales to Egypt and their conditions, the Council had before it some calculations submitted by the United States at the special meeting and subsequently revised (DPC/W/32/Rev.1) and calculations submitted by the European Economic Community (DPC/W/33). The Council also had before it a draft resolution submitted by the European Economic Community.

18. The representative of the United States said that the calculations submitted by the European Economic Community appeared to contain errors, one of which was fundamental. There was, in fact, no qualitative adjustment for cheeses to be made under the Arrangement. With regard to the calculations submitted by his delegation, he pointed out that the action relating to the interest rates and additional charges for the use of

United States bottoms and other services provided was in accordance with the terms of sale of Article 3 of the protocols. The estimate at the time of sale included an additional justified cost of \$85 per metric ton for shipping one half of the butter and cheese in United States bottom. Since then, according to offers received by the Commodity Credit Corporation, that cost had increased. The revised figure was \$146 per ton. In addition, after further inquiry the figure for credit cost applicable at the time of the sales had been increased to 22 per cent. The prices thus adjusted were \$1,408 for butter, \$1,127 for Cheddar cheese and \$1,032 for processed cheese. Those prices were within the range of recent price quotes and were the best obtainable on a declining market burdened by large stocks, which were the real source of the problem. He referred to the terms of a letter sent by his authorities to the Commission of the European Communities in response to the concern it had expressed about those sales. In that letter, the desire of the United States to see a much diminished rôle for export subsidies in world agricultural trade was recalled, as well as the efforts it had made to point international discussions in that direction. The United States continued to hope that its efforts would be successful, but in the meantime could not rule out the use of export subsidies and similar measures by the United States Government to promote its own agricultural interests and put its products on an equal footing with subsidized exports of other countries. The letter stressed the intention of the United States to fulfil its international obligations. It was pointed out that recent sales of dairy products to Egypt had been structured in such a way as both to comply with those obligations and to minimize the adverse effect on the world dairy market. The representative of the United States reiterated, in conclusion, that the United States had fulfilled and met its obligations under the International Dairy Arrangement and the GATT.

19. The representative of the European Economic Community expressed the Community's disappointment at the reception of its compromise proposal, namely, the adoption by the Council of a resolution expressing in moderate terms the concern caused by the sales and the hope that they would not be

repeated. He regretted that the United States, which had opposed the resolution, had thus been unable to confirm that it would henceforth comply with the provisions of the Arrangement. The letter to which the United States representative had referred, and the terms of which were worrying, explained his opposition, since it envisaged the possibility of subsidized sales of dairy products or other agricultural products. Thus the fears that further sales of that kind might be made were well founded. With regard to the calculations submitted, the European Economic Community had endeavoured, following the discussions at the special meeting, to show the differences between its position and that of the United States regarding certain figures; for the sake of clarity, it had used the United States' method of calculation. Three disputed points had been noted, namely: the rate of interest, the qualitative adjustment and transport costs. For the rate of interest, although other methods of calculation were usually employed, the EEC had adopted the United States formula. The Arrangement provided that for adjustment of the price, credit should be charged for at the prevailing commercial rates in the country concerned. After enquiries at American banks, the EEC had adopted the minimum rate indicated to it: 13 per cent. As to the qualitative adjustment, although the Protocol did not provide for it, common sense required that a correction be applied if an agreement on a minimum price was to have any significance. The Arrangement was meaningful only if it was precisely interpreted. Moreover, such an adjustment was made by the United States itself, according to very strict rules, in its supervision of cheese imports. With regard to transport costs, the Arrangement was quite specific: the prices established were f.o.b. prices. Although an adjustment between f.a.s. prices and f.o.b. prices was justified, no further costs could be taken into account. The result of those different adjustments had been that in the sales in question the price of butter had been slightly below the minimum price, and the prices of the cheeses had been below the minimum price by 26 per cent for Cheddar and 34 per cent for processed cheeses. That situation was very serious, since the lowest prices governed the market; a fall in prices was to be feared and the EEC wished to avoid it.

20. The representative of the United States observed that the reason why the draft resolution had not been acceptable to his country was that its text implied that the United States had violated its obligations and sold at a low price, which was not true. Moreover, there were quotes below the adjusted prices. The text also appeared to imply that the United States was the only country subsidizing its exports - an implication which his delegation could not accept. As to the adjustments for quality of cheeses, it was obvious that if two of the protocols provided for such adjustments and the third did not, it was because the negotiators had not considered it appropriate to include such a provision. The United States had complied with the provisions of the Arrangement regarding the interest rate: the prime rate at the time of the sale had been 10.5 per cent; a large borrower could obtain a loan under certain conditions at one quarter to one half per cent above the prime rate. As to transport costs, the United States had not wished to include those costs as such. The reason for the inclusion was as follows: the United States had wanted half of the total tonnage to be carried in United States bottoms; to compensate for the additional cost to Egypt, the rate of interest had been set at zero. That was a cost in the sense of the terms of sale outlined in Article 3 of the Protocols. He reaffirmed the United States commitment to the International Dairy Arrangement and stressed that the United States had fulfilled its obligations under the Arrangement. His delegation took note of the concern expressed by the participants and found that their real concern related more to the longer term and in particular to production policies and size of stocks. He pointed out that the United States was seeking the adoption of new legislation to control that situation.

21. The representative of Australia, referring to the adjustment of cheese prices, recalled the difficulties encountered by the negotiators of the Arrangement and the fruitless attempts made to find a workable system. Originally, the provisions of the Protocol had been intended to apply mainly to low-quality cheeses, so the minimum price had been fixed at a very conservative level, being also valid for other cheeses without

adjustment. That was why his delegation could not go along with the EEC proposal that there be an adjustment factor for quality. With regard to the additional shipping cost for United States bottoms, he could not accept the inclusion of that element in the calculations; the f.a.s. price must be adjusted to obtain an f.o.b. price, but no further element could be taken into consideration. He had drawn attention to the concern caused by the sales, which he could not regard as commercial sales and which had potential for influencing the behaviour of importers. Those sales also gave rise to anxiety in that they showed that the United States might be prepared to dispose of its surpluses on the world market. At that stage and for the immediate future, the transaction in itself did not cause Australia too much trouble, but its principle and implications were worrying, particularly if they meant that the United States was to become a normal, regular exporter on subsidized terms, like the EEC. Again referring to the concern caused by those sales, he expressed the hope that such transactions would not be repeated and pointed out the need for greater co-operation to ensure that the market was not disrupted. He emphasized that there were symptoms of a very fundamental malaise in the dairy sector, obviously deriving from the accumulation of surpluses, for which the mechanism of intervention support buying was mainly responsible. It would be advisable for the Council to examine the fundamentals and not only a symptom of that underlying malaise, and to reflect on the problem as a whole in the context of that particular transaction.

22. The representative of Argentina also noted the concern caused by the sales; it seemed that there had been a lack of respect for the spirit of the Arrangement and in particular for the spirit of co-operation which should exist among participants and in regard to each other. As to the calculations submitted, the question of transport costs raised a problem which had not been solved by the explanations given. In the calculation of interest rates, it was difficult to understand the figure adopted. It would be preferable to base the calculations on current rates and adhere strictly to the text of the protocols, which referred to prevailing rates of interest. As to the qualitative adjustment, the reason why every such

mechanism had proved difficult was the immense variety of cheeses. Without pronouncing on the question whether it was necessary to make such an adjustment, it must be recognized that there was a difference between the products; that question warranted more thorough discussion. Referring to the letter read out by the United States representative, he deplored the lack of consideration it showed, especially for small countries, and the manifest intention to generalize a particular problem.

23. The representative of the European Economic Community, referring to the calculations submitted by the United States, asked for particulars concerning the rate of interest: what had been the commercial rate of interest in the United States on 3 August 1983, how had it moved since then and by what banks was it applied? He observed that the United States had put forward world price quotations to justify the prices at which it had sold, but no quotation allowed a participant to sell below the minimum price, which was a disaster price. The explanation concerning the relation between transport costs and zero interest seemed illogical and it appeared that an importer would do better to pay interest and be responsible for the transport. In any case, those elements could not be taken into account, because the price was f.o.b. He put the following question to the experts present: could cheese having a 25 per cent fat content and 45 per cent dry extract be sold below the minimum price?

24. The representative of New Zealand observed that although it was difficult at that stage to draw definite conclusions concerning the figures submitted, some of the factors mentioned seemed to be compelling. With regard to shipping costs, the essential point was that the basis for the agreement was f.o.b. In normal commercial trade, moreover, it was necessary to seek the lowest shipping cost. After examining the calculations, there were good reasons for doubting whether the minimum price had been respected. Even if that doubt could be dispelled, the concessional elements in what was a sale into the commercial market caused great concern. The application of those concessional elements showed that

it was an exercise clearly intended to take the market from existing traders. Although the United States had clearly intended those sales to have only a minimal effect on the world market for dairy products, they had had, and continued to have, a direct effect on sales, which were displaced. They also had another effect: there were indications from some markets of developing countries that they expected better terms to be offered, because of the substantial stocks available on concessional terms. Even if the United States did not intend to make further sales of that kind - and New Zealand greatly hoped that such sales would not be repeated - those sales created expectations in the importing world that the products concerned might be available on better terms. They were a destabilizing factor in the international market, which was contributing significantly to the costs borne by dairy exporting countries through reduced returns. From New Zealand's viewpoint as an exporter largely dependent on dairy products, it was critically important that no new major source of subsidized exports should enter the market. The Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade was a set of rules on the interpretation of which opinions differed. Hence it was not possible to arrive at an interpretation which was currently applicable. Lastly, with regard to the draft resolution, which the United States seemed unable to accept, New Zealand, which could have accepted it, did not consider that that formula was necessarily the only form of conclusion. Regretting that it was not possible for the United States to take note in that way of the concern expressed, he observed that, in view of the arguments advanced during the discussion, it was important that the United States should take very full account of the real expression of concern by a number of dairy exporting countries about the impact of those particular sales and that it should, above all, take very particular note that no similar action should be repeated.

25. The representative of Uruguay said that as a signatory to the Arrangement and to the Agreement on Interpretation and Application of

Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade, his country was doubly interested in that question and would examine the calculations and information submitted by the United States and the EEC.

26. The representative of the United States repeated that the United States reserved the possibility of protecting its export interests, if need be, by export subsidies, but that that was not a general policy. The United States had, on the contrary, made every effort to encourage discussion in international fora to eliminate subsidies on exports. The sales in question had been in a specific market and not across the board. The concern expressed by the participants would be communicated to his authorities and recorded in the Council's report, together with the fact that the United States believed it had discharged its obligations fully and responsively and had not adversely affected prices, which had been going down significantly for some time before the transaction had taken place. He confirmed that at the time of the sales the prime rate in the majority of banks had been 10.5 per cent. The Federal Reserve Board rate at that time had been 8.5 per cent. A large commercial borrower could obtain a commercial loan at 1/4-1/2 per cent above the prime rate. The extra cost of transport had been charged on the basis of what would have been the international commercial rate, the excess over which had been included in the calculation.

27. The representative of Finland, speaking on behalf of the Nordic countries, said that the inclusion of transport costs seemed to be incorrect, since the price in question was an f.o.b. price. According to the explanations given, it seemed to amount to an extra discount on the price of the product. The Nordic countries shared the concern expressed about the very precarious situation of the market for dairy products. In that situation, it was the duty of all participants to show restraint in their actions. The sales in question could have a destabilizing effect on the international market for dairy products. With regard to the draft resolution, the Nordic countries could agree to the Council expressing its concern about the sales, but wished to examine the formulation further.

28. The representative of the United States explained that the additional cost of transport was not a discount, it was an actual cost borne by the commodity.

29. The representative of Austria said that the sales had indeed caused great concern. The conditions of the contract could prejudice others and could create a precedent for other cases. Austria was already confronted with the United States practices on other markets in that region. It was important that the provisions of the Arrangement should be respected by all exporters of dairy products. Without pronouncing on whether the United States had violated the provisions of the Arrangement relating to minimum prices, it seemed that in any case it had not complied with the provisions relating to prompt submission of information.

30. The representative of European Economic Community said that he did not wish to prolong the discussion on the calculations submitted. Both the figures and the method of calculation were disputed. And since any result of the examination made by the Council must be obtained by consensus, there was no possibility of settling a dispute. The EEC maintained the argument it had advanced in document DPC/W/33. Even if the figures submitted by the United States delegation were accepted, the minimum price had not been respected for Cheddar and processed cheeses, since no one had accepted the inclusion of transport costs in an f.o.b. price. As to the further action to be taken in the matter, the EEC had submitted a recommendation and it maintained its proposal. The United States had opposed that proposal, however, so that a consensus was not possible. The Council's report to the CONTRACTING PARTIES should reflect that fact and indicate that the EEC had expressed regret and disappointment that the International Dairy Products Council had been unable to solve the first problem brought before it concerning the application of the provisions of the Arrangement and, in particular, the observance of the minimum prices. The EEC reserved the right to have recourse, for that case, to other procedures provided for in the General Agreement or in the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement. It would be

advisable to consider whether, in the light of that experience, the Council should not be endowed with means of settling cases of that kind, for the Council should be the best forum in which to reach agreement.

31. The representative of the United States, referring to the statement by the representative of Australia, said that the real problem was subsidized exports. The expression of concern was not so much about the sales themselves as about the question of subsidized exports, and the problems raised would subsist so long as there were subsidized sales. That was why the United States was pushing hard to try to eliminate them.

32. The representative of the European Economic Community noted that the delegations which had spoken had shared the view of the EEC on the United States sales and that a more general problem should not be taken up in that connection. Agricultural policies and export subsidies should not be discussed in the Council.

33. The representative of Egypt intimated that his delegation did not support the draft resolution.

34. The Chairman noted in his conclusions that it had been remarked that the transaction effected by the United States was a commercial sale on concessional terms and that the United States had agreed that it was a commercial sale. The Council had discussed calculations submitted by the United States and the European Economic Community and had concentrated on the question of putative interest charges and the additional shipping cost for United States bottoms. All participants who had taken the floor on those two elements of the concession took a different view from that of the United States on the calculation of f.o.b. prices. Other concessional elements of the agreement had also been mentioned, including payment in non-convertible currency and the possible need to make an adjustment for differing cheese qualities in calculating f.o.b. prices. Concern had been expressed by all speakers addressing themselves to the United States action, on the impact that such sales would have on international trade in

dairy products; they had expressed the hope that there would not be a recurrence of such sales. Participants had stated that there might be reasons to question whether the minimum prices had been observed in those particular sales. In that connection they had stressed the difficulty of the current market situation in those products and the duty of all participants in the Arrangement to respect all of its provisions. Concern had also been expressed that information on such sales should be provided in due time in accordance with the commitments assumed by signatories. The United States, in reply to those expressions of concern, had stated that it had not affected prices adversely and that it had respected all of its commitments under the International Dairy Arrangement and other GATT instruments. The United States delegation had taken note of the concern expressed and would report on it to its authorities. A draft resolution presented by the European Economic Community and supported in principle by the great majority of the participating countries had not been accepted by the United States. As a consequence of the position of the United States and another participant, that draft resolution could not be adopted by the Council. The Chairman noted also that the exchange of views and of information, which had been thorough and in depth, was evidence of both the need for and the efficacy of the International Dairy Arrangement as a forum for addressing problems that arose in international markets.

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

35. In opening the discussion on this item of the agenda, the Chairman pointed out that during the evaluation a number of questions would have to be dealt with, such as dairy policies, food-aid and products not covered by the protocols. The Council had before it two documents prepared by the secretariat: a status report on the world market for dairy products (DPC/W/30) and a note on food-aid operations relating to dairy products (DPC/W/31). The report on the world market for dairy products would be revised by the secretariat in the light of the discussions and of the amendments and updating of information communicated. It would then be generally distributed.

36. The representative of the European Economic Community said that according to the forecasts for the end of 1983, the number of dairy cattle would increase by about 1 to 1.5 per cent; the yield per cow would also increase. Milk production should therefore exceed the previous year's figure by 3.4 per cent. The following increases in production were expected: butter: 11 per cent; cheese: 0.9 per cent; skimmed milk powder: 14.9 per cent; casein: 6.9 per cent; skimmed milk returned to farm: 15.8 per cent. Production of semi-skimmed milk powder would decrease by 10 per cent, that of whole milk powder by 8.1 per cent and that of condensed milk by 5.2 per cent. During the first six months of the year, the EEC had noted a general fall in its exports: condensed milk: -7 per cent; skimmed milk powder: -13 per cent; whole milk powder: -14.7 per cent; butter: -22 per cent. Commercial exports of butteroil, however, had increased by 14 per cent and those of cheese by 1 per cent. In reply to the charges of aggressiveness made against the EEC, he pointed out that the Community share of the international market had declined between 1980-1981 and 1982 from 60 per cent to about 46.8 per cent for butter and butteroil, from 59.6 per cent to 41.7 per cent for skimmed milk powder and from 73-76 per cent to 66.9 per cent for whole milk powder. Condensed milk, sweetened and unsweetened, there had shown a slight increase, from 71 per cent to 72.4 per cent and cheeses a rise from 46.9 per cent to 48.8 per cent. Stocks of butter on 15 September had amounted to 607,518 tons of public stocks and 232,434 tons of private stocks, while stocks of skimmed milk powder had been 1,021,300 tons. Stocks of skimmed milk powder had decreased by 27,000 tons in a fortnight, in particular because of the success of sales for feeding pigs and poultry. During July and August those sales had totalled 100,000 tons per month, while the selling price, which had been about ECU 20 to ECU 21 per 100 kg. at the beginning of the summer, had risen at the last allocation to ECU 24.5 to ECU 25.5 per 100 kg. He drew attention to the efforts made by the EEC not to disturb the stability of the international market, for which it felt responsible. The satisfactory operation and stability of that market could only be achieved through the co-operation of all participants in the Arrangement and a spirit of solidarity. He informed delegations that the

Commission had transmitted to the Council of the European Communities proposals for the revision of the Common Agricultural Policy, including the Dairy Policy.

37. The representative of Australia, referring to the reform of the Common Agricultural Policy, noted that it was a very useful step forward, but that some aspects of it were of concern to Australia. He expressed the hope that the EEC would be able to devise a new set of arrangements which would have no harmful effects on the trade of third countries with the EEC.

38. The representative of the European Economic Community observed that in the medium and long term the object of the proposals made was to balance supply and demand and to reduce stocks, the high level of which was at present exerting pressure on the market. In reply to a question by the observer for the Economic Commission for Europe, he said that the importation of cheap vegetable proteins made it possible to increase milk production even, and especially, in areas lacking pasture. In order to avoid disruption of the international market, the excess production and stocks made it necessary to sell skimmed milk powder on the domestic market in competition with the vegetable proteins imported. The recent increase in prices of vegetable fats, particularly soya, had led, among other things, to a slight increase in the selling price of milk powder for pigs and poultry. Another consequence of the increase in the price of vegetable proteins might be to reduce consumption to some extent and perhaps to slow down production, or at least its rate of increase. A change in the price of meat resulting from the use of milk powder for animal feed, might also have an influence on cheese consumption. All those problems were connected and should be considered together.

39. The representative of the United States observed that his delegation had a rather different point of view on that system. The problem in the EEC was not cheap feedstuffs or proteins but its high internal prices as feedstuffs are selling at the world price.

40. The representative of New Zealand pointed out that the reply to Questionnaire 5 showed that New Zealand was effectively applying a policy of reflecting market returns in the receipts of producers. A decline in returns on the international market that year was likely to result in a reduction of producer receipts on a unit basis of a little over 5 per cent in numerical terms, or about 10 per cent in real terms. It was expected that the prices initially set at the beginning of the 1983-84 season would not have to be supplemented at the end of the season. The likely receipts were 340 cents/kg. of milk fat in whole milk at farmgate, compared with the final pay of 360 cents/kg. in 1982-83. The device known as the supplementary minimum price had been set at such a low level that it would not be in effect that season. The delegation of New Zealand expressed its appreciation of the efforts made in the EEC and in the United States to take measures to control excess production. It was important that such changes should take place in a way which did not disturb trade.

41. In reply to a question by the representative of the United States concerning a Community sale of processed cheeses to Egypt at US\$855 per ton c. & f. Alexandria, the representative of the European Economic Community said that 200 tons had in fact been sold the previous spring at a price of f. 2,250 per ton. The sale had included 389 tons of Edam cheese at a price much higher than its normal price. It had been a linked-sale transaction, carried out by a Netherlands firm specializing in the use of low quality products. He pointed out that during the first half of 1983 exports of processed cheeses had been made by other member States of the EEC at average prices varying between US\$1,721 per ton and US\$2,914 per ton. The price of cheeses, including processed cheeses, could vary as much as three-fold by reason of the raw materials used, the content of fats and nitrogenous substances and the packaging. The volume of sales was small and could not affect the market even of a small country. Moreover, that sale had been made by a private firm, not by a public body. Referring to inward processing traffic, he observed that if Community sales were made at low prices, it was not impossible that the cheeses sold did not come from such traffic.

42. The representative of the United States stressed that under the terms of the Protocol, in particular Article 7, the sale of a product corresponding to the definition given in Article 1 should have been notified.

43. The representative of New Zealand observed that the sales, even if they had been of minimal quantities, could give a wrong impression having regard to all the questions of quality and differentials that had been raised. It was most important that all participants should operate on the understanding that even very small quantities ought not to be sold below the minimum price. All traders should be duly so informed.

44. The representative of Australia said that the Australian industry had been properly informed of its obligations under the Arrangement whatever the volume of sales. He hoped that the attention of traders in the EEC would likewise be drawn to their obligations.

45. The representative of Norway expressed his regret that the transaction had been the subject of bilateral discussions without other participants having been informed. A discussion of the transaction could not take place without all the participants being informed in advance.

46. The Chairman drew attention to the importance of complying with the provisions of the Arrangement, particularly, in the case in point, the provisions relating to notifications and the observance of minimum prices. He suggested that the question of that transaction could be taken up again at the December session of the Committee of the Protocol Regarding Certain Cheeses.

47. The representative of Australia indicated that the Australian dairy industry policy was currently under review. The review process included public enquiry and report by an advisory body, which had recently published a draft report for public discussion and would make its final report and recommendations to the Government before the end of 1983. The food-aid

granted by Australia was very small and provided only on request. With a view to endeavouring to graduate markets which virtually did not exist at the moment, Australia had considered deliveries of cheese as food-aid, but after enquiries it had given up that project as the prospects did not seem good. With regard to the general situation and prospects, the dairy industry had emerged from a difficult process of rationalization and contraction as a far more efficient industry. In response to favourable export and domestic prices, production had increased. The increase had occurred in 1982-83 despite a drought, thanks in particular to drought assistance, which included the provision of fodder on a subsidized basis. At the beginning of the 1983-84 season, production had increased again because of excellent seasonal conditions. Milk production was expected to reach 5.65 million litres in 1983-84, whereas it had been 5.525 million litres in the previous season. That development had come at the wrong time, when the market was under pressure from stocks, which were particularly large in the United States and the EEC, and the industry had to bear the consequences, since there was no machinery in Australia for the purchase of unsold products. The present difficulties in the dairy sector concerned all participants in the Arrangement, not only the EEC and the United States. The Council could give a very useful message to policy makers to help in the difficult process of achieving a more rational development of policies in the future, so that the excesses so apparent at present could be moderated. Among support measures, the most pernicious of all was intervention buying; that was an area on which the Council might focus attention.

48. The observer for Canada said that measures had been taken in January 1983 to reduce quotas by approximately 2 per cent. On 1 August 1983 the over-quota levy had been increased to \$31.79 per hectolitre. As a result of those measures, industrial milk production had been falling quite rapidly. For the dairy year 1982-83 a fall of 0.3 per cent had been recorded, as compared with the previous year. Industrial milk production in the 1983-84 dairy year was expected to be about 46.7 million hectolitres, which would be a small decrease from the 1982-83 level. The Canadian Government had decided to make a considerable increase in

food-aid in the form of skimmed milk powder. Because of the increase in that aid (to 28,000 tons), Canada would probably not be in the market before 1 July 1984, except for small quantities for regular customers. He stressed the problems caused by the present level of stocks, especially those held by the EEC and the United States. In Canada, losses on exports were borne by the producers. Canada would therefore greatly appreciate, and would be willing to co-operate in, any effort made to remedy the situation.

49. The representative of Japan pointed out that in 1982, ¥ 1.2 billion had been spent on food-aid in the form of dairy products. Products supplied mainly by Australia and New Zealand, which had included 3,000 tons of skimmed milk powder, had been used. The programme had been continued in 1983. He noted that the production of dairy products was increasing in relation to consumption of milk for drinking; owing to a cool summer, a large amount of raw milk had been used for processing. As a result of measures relating to milk production (guaranteed price maintained at the same level, limited quantities for deficiency payments and production restraint programme) the supply and demand situation had improved since the second half of the fiscal year 1981. Prices had recovered and the LIPC had sold part of its stocks in the fiscal year 1982. The tight price situation had continued in the fiscal year 1983.

50. The observer for the European Commission for Europe said that the stability of the number of dairy cattle, and stationary or falling yields, had caused a reduction of 1 per cent in milk production in Eastern Europe in 1982. According to initial forecasts, production would increase by 1 to 2 per cent in 1983. In the USSR, milk production had increased by 1.3 per cent in 1982. It seemed that weather conditions were again favourable in the current year and that supplies were satisfactory. In the first half of 1983, milk production and yield per cow had increased by 12 per cent. Production of butter in Eastern Europe had increased by 1 per cent in 1982 and might increase by 2 to 3 per cent in 1983. In the USSR, butter production had increased by 5 per cent in 1982 and might increase by 5 to 6 per cent in 1983, thus returning to its level of six years ago. The

increase had been 15 per cent in the first half of 1983 as compared with the first half of 1982. For the year 1982, the trend of imports into the USSR had been as follows compared with 1981: milk powder: +17 per cent; cheese: -49 per cent; butter: -30 per cent. Imports by the USSR in 1983 should not exceed 100,000 tons and might even be less. Exports by the USSR in 1982 had been below their 1981 level for cheese: -59 per cent (4,000 tons) and condensed milk: -5 per cent; they had been higher than the previous year's level in the case of butter: +11 per cent (15,000 tons).

51. The representative of New Zealand indicated that milk fat deliveries for manufacturing purposes in the 1982-83 season had been just under 3 per cent greater than in 1981-82. The 1983-84 season had started reasonably well in terms of cattle conditions. So far, production was again slightly up on the previous year. Production in 1983-84 was expected to be at about the same level as in 1982-83. As to food-aid, New Zealand did not provide any in its own name. Recognizing that there was a real need for such aid, New Zealand had always stressed that every effort should be made to avoid moving products into commercial markets. As to the general situation, it remained disturbing. Since the session in September 1982, when New Zealand had noted that there were real problems, but that they should not be aggravated by exaggerated pessimism, the market had declined further by reason of overhung stocks, the general economic situation and currency movements, but the situation could have deteriorated more, as some people feared. It had been possible to exercise some discipline. The situation was still fragile and there were signs that caused concern; but the New Zealand delegation believed that there were also hopeful signs. The signs causing concern were obvious: massive stocks in the EEC and the United States, contraction of opportunity for exports to the USSR, an air of depression over the market and stagnant consumption; some reduction had been recorded in the developing countries. There were also some hopeful signs, although admittedly they tended to relate to the medium or longer term, rather than to the short-term, such as the general upturn of the economy. Reference had been made to expectations

of increased consumption of some dairy products. He referred in that connection to the measures taken by the United States and the EEC, and drew attention to the information given during the sessions of the Committees of the Protocols. That information seemed to show that in certain countries consumption had been moving against the trend, which was regarded as a long-term, endless one. The United States and the EEC were trying to grapple with the problems of structural over-production. Nevertheless, although the long-term prospects should not provoke undue pessimism, the short-term situation was serious. The recent discussions in the OECD had clearly registered the fact that the international market (commercial sales or food-aid) did not offer solutions in the short or long term to the fundamental problems of over-production. The Council should urge the major producing countries to continue to exercise restraint in the disposal of their surpluses - that was crucial for the international market - and urge the EEC and the United States to press ahead with their projected measures. Referring to the statement in which the representative of Australia had stressed the need to focus on production and the impact of intervention purchasing, the representative of New Zealand also urged that course on other participants.

52. The representative of the European Economic Community said that he shared the concern which had just been expressed. The EEC had also called for the strictest observance of all the provisions of GATT instruments, so that the international market for dairy products, which was now in a precarious situation, could be kept in reasonable equilibrium. He pointed out that the EEC was indeed trying to control its production better; measures had been proposed and the Commission hoped they would soon be put into effect.

53. The representative of Hungary said that the trends of Hungary's production, consumption and trade had remained unchanged. In 1982, production had amounted to 2,750,000 tons, which was an increase of 6 per cent over the previous year, in spite of a slight decrease in the number of dairy cattle. Production in 1983 should remain at its 1982 level, which

was about 0.5 per cent of world production. Hungarian production was still intended to match domestic consumption. Exports were made only in order to utilize home-produced primary products exceeding internal needs, except for certain types of cheese which were traditionally exported if they had market access, for example, to the United States.

54. The observer for the OECD said that, as recommended by the Ministers for Agriculture on the occasion of their meeting on 2 and 3 December 1982, and because of the increasing disequilibrium of the market for dairy products, the Secretary-General had organized, in June 1983, a consultation on the problems in that sector. Following the consultation, a meeting of the Committee on Agriculture had been held on 21 and 22 September to consider the solutions which governments might envisage to correct the present imbalance. Four points had been examined, namely, possibilities for increasing consumption, production targets for 1984 and the related measures contemplated, supplementary measures which could be taken if necessary and, lastly, action to be taken at international level. Attention had been focused mainly on the United States and the EEC, which held the largest stocks at present and where there was a great danger of further widening of the gap between production and consumption. The measures proposed by the Commission of the European Communities and the American draft legislation which had been mentioned, showed that governments recognized the seriousness of the problem. Nevertheless, it was not certain that the proposals would be adopted and it was even to be feared that their effect would not be sufficient to reduce production. The quota systems applied in several countries (Canada and Switzerland, and more recently Austria and Norway) had attracted much interest, because they permitted good control of production. At the conclusion of the discussions it had been noted that governments should pursue with determination their efforts to secure legal provisions giving effect to the measures now contemplated. But as the most that could be expected of those measures was stabilization of production, not a correction of the present imbalances, it would even be necessary to conceive bolder policies. Governments which already applied such measures, including production quotas, should maintain

and strengthen them. Producers should be advised that those measures would be maintained so long as the balance of the market had not been restored, and informed that additional measures would be taken if the current efforts proved insufficient. Even if the proposals submitted were put into effect, the stabilization of production, not to mention the rebalancing of the market, would take some time. In the interval, in order to avoid further deterioration of the international situation, governments should co-operate in seeking means to reduce the danger, in particular by consulting on stocking policies and on the fixing of prices on international markets.

55. The representative of Poland said that in recent years production had decreased considerably. In 1981 and 1982, owing to that decrease, Poland had been obliged to make fairly large imports. Production had picked up again in 1983. It was estimated that milk output in 1983 would amount to 10 billion 400 million litres, whereas in 1982 the figure had been 9 billion 307 million litres. The policy of Poland was to try to restore the balance between supply and demand on the domestic market; that policy would be continued in 1984. Very definite progress had been made in 1983, and Poland would be able to meet its own needs for a number of dairy products without having recourse to imports. Some purchases of cheese might nevertheless be made before the end of the year.

56. The representative of South Africa pointed out that the drought had continued in South Africa. Natural pastures were deteriorating and fodders were becoming increasingly scarce. Eighty per cent of all livestock was now on subsidized feeding. In those conditions it was difficult to estimate what would happen to milk production. The guaranteed price of both fresh milk and industrial milk had been increased as from 1 July; two-thirds of that increase was being applied by way of increased levies on producers for the stabilization of the dairy industry. The retail prices of butter and cheese had been increased from the same date by approximately 10 per cent. The control over the retail price of fresh milk had been abolished; it was expected that the retail price would rise by about 10 per cent as a result of the abolition and that expectation had been borne out by the last few months.

57. The representative of Finland noted that no change had taken place in the dairy policy of Finland since the reply made to Questionnaire 5. With regard to food-aid, 1,000 tons of processed cheese had been allotted to the World Food Programme and almost 3.5 million marks' worth of milk powders had been donated through humanitarian institutions. Milk production had increased in the first half of 1983 by 8 per cent, but the trend had now stabilized and it was expected that production would increase by about 3.5 per cent over the year 1983 as a whole. There had been no changes in the trends of other products not covered by the protocols. Referring to the definition of cheeses covered by the Protocol, he asked whether there were any conversion factors applying to cheeses having a fat content under 45 per cent.

58. The representative of Australia pointed out that the description adopted during the negotiations had been aimed essentially at Cheddar. The intention had been that there should be one single minimum price. It had been expected that if traders selling cheese commercially could take a quality premium, they would do so. As to cheeses with a lower fat content, the assumption at the time had probably been that there would not be much trade in those products and that the same single minimum price would continue to apply.

59. The representative of Sweden indicated that there had been no major policy changes in Sweden that year regarding the dairy sector. Recent estimates of milk deliveries to dairies suggested an increase of about 2 to 2.1 per cent in 1983 as compared with 1982. The increase had amounted to 4.5 per cent for the first six months of 1983. But during the period June to August, a slowing down had been recorded. There were several reasons for that trend: a number of measures had been taken since the previous year to reduce surplus production; the number of cows had decreased by about 5,000 since mid-1982; and a dry summer had resulted in bad fodder crop quality. That would probably affect milk production for the rest of the year. Sweden had so far experienced a positive development of consumption of dairy products in 1983. An overall review of Swedish

agricultural policy had been undertaken; proposals concerning surplus production would be made before the end of 1983.

60. The representative of Switzerland drew attention to the quota system applied by Switzerland, which had been mentioned by the observer for the OECD. Present milk deliveries were slightly greater than in the previous year, when producers had not completely filled their quotas. The increase would be about 2 to 3 per cent in 1983. The number of dairy cows was continuing to fall. In 1983 the decrease had been 1.6 per cent. Since 1979, there had been a constant reduction in the number of dairy cows. On the other hand, the yield per cow was tending to increase (by about 2 per cent). The trend of production was thus more or less stable.

61. The representative of the United States said that the United States had taken the initiative of revising its dairy programme in order to bring production into line with demand. The milk production targets for 1984, assuming continuation of the dollar per hundredweight deduction from producers' receipts under the 1982 Budget Reconciliation Act, called for no change in milk output from the 1983 levels. Fluid milk use next year would be down slightly and factory use was expected to be a little higher (about 1/2 per cent). He informed the meeting that he had communicated to the secretariat an update on the operations under Section 416 and PL 480. He had also communicated the following information: August 1983 had marked the 52nd consecutive month of a year-to-year increase. Continued gains during the summer had resulted from additional cows and more output per cow than a year earlier. The number of cows was expected to decline in the fall as lower returns for milk, higher feed costs and better off-farm employment opportunities would cause dairy farmers to cull cows more intensively. On average, the numbers of cows in 1983 would be up slightly, but might be somewhat lower in 1984. Despite high feed costs, output per cow was expected to improve by 2 to 3 per cent in 1984, because of high culling rates, better management and genetic improvement. On balance, gains in milk production would slow down later in the year and production for the whole of 1983 would probably be up 1 1/2 to 2 per cent from the 1982 record.

62. The representative of Norway said that the increase in milk deliveries had come to a standstill and a downward trend had been registered. However, the figures for the first six months of 1983 still indicated a slight increase in deliveries of 0.9 per cent, representing about 8 million litres. It was expected, however, that milk production in 1983 would be at the 1982 level or somewhat lower. For next year, the two-price quota system would be revised in order to reduce milk deliveries to dairies. It was expected that deliveries would come down to 1,880 million litres. Prices on over-quota milk would be substantially reduced in relation to the paying price to the producer.

63. The Chairman noted that the information exchanged had been useful and had made it possible to complete the overall picture of the situation in and outlook for the world market for dairy products. It had been pointed out that the greatest vigilance was needed to keep market conditions as stable as possible, and the decisive importance of strict compliance with all the provisions of the Arrangement had been stressed.

E. Report to the CONTRACTING PARTIES

64. On the basis of the draft prepared by the secretariat, the Council examined its report to the CONTRACTING PARTIES, which, in particular, should respond to the request formulated by the GATT Council at its meeting on 20 April 1983 (C/M/167, page 8) in connection with the action to be taken on the decision concerning the MTN Agreements and Arrangements included in the Ministerial Declaration of 29 November 1982 (L/5424, page 11). The report should therefore include information on the adequacy and effectiveness of the Arrangement and on obstacles to its acceptance by interested countries. The Council adopted the text of the report, as amended to take account of the discussions at the current session, and it was agreed to instruct the Chairman to submit it on his own responsibility. (This report was subsequently issued as document L/5546.)

F. Other business

65. The Chairman suggested that, as at previous years' sessions, a preliminary calendar should be drawn up for 1984. He suggested that the dates 29 and (if necessary) 30 March and 27 and (if necessary) 28 September should be provisionally adopted for the sessions of the Council. A final decision on those dates could be taken later, when the dates for the Committees' sessions were fixed in December.

66. The Chairman said that he would also prepare, on his own responsibility, and have distributed, a note on the special meeting of 12 September and on the current session. (This document was subsequently issued as L/5562.)

ANNEX/ANNEXE/ANEXO

International Dairy Products Council
Conseil international des produits laitiers
Consejo Internacional de Productos Lácteos

LIST OF REPRESENTATIVES - LISTE DES REPRESENTANTS -
LISTA DE REPRESENTANTES

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Presidente:

Vice-Chairman:
Vice-Président: Mr. A. Cruit (United States)
Vicepresidente:

PARTICIPANTS
PARTICIPANTES

ARGENTINA

Representantes

Sr. Alberto Dumont
Consejero (Asuntos Económicos
y Comerciales),
Misión Permanente ante la Oficina
de las Naciones Unidas en Ginebra

Sr. Jorge Viganó
Primer Secretario (Asuntos
Comerciales),
Misión Permanente ante la Oficina de
las Naciones Unidas en Ginebra

Secretary:
Conference Officer:

Mrs. F. Hubert, C.W.R., Tel. Ext. 2124
Miss S. Niklaus, C.W.R., Tel. Ext. 2350

AUSTRALIA

Representatives

Mr. J.K. Baker
Assistant Secretary,
Sugar, Dairy, Fruit and Tropical
Products Branch
Department of Trade

Mr. E. Thorn
First Assistant Secretary,
Dairy and Intensive Livestock Division
Department of Primary Industry

Mr. Brian Norwood
General Manager,
Dairy Corporation in Melbourne

AUSTRIA

Representative

Mr. Richard Hochörtler
Minister,
Permanent Mission to the Office of
the United Nations at Geneva

BULGARIE

(Liste non reçue)

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M. H. Stadler
Administrateur principale,
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Permanent Mission to the Office of
the United Nations at Geneva
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des Nations Unies à Genève

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Directeur de Section,
Ministère de l'Agriculture
et des Forêts

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auprès de l'Office des Nations
Unies à Genève

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Ministère de l'Agriculture

M. T. van Ormondt
Ministère de l'Agriculture

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GRANDE-BRETAGNE ET
DE L'IRLANDE DU NORD

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Permanent Mission to the Office of
the United Nations at Geneva

Mr. R. Gwen
Second Secretary,
Permanent Mission to the Office of
the United Nations at Geneva

Mr. W. Scriven
Ministry of Agriculture,
Fisheries and Food

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Conseiller,
Mission permanente auprès de l'Office
des Nations Unies à Genève

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Ingénieur principale,
Ministère de l'Agriculture

DANEMARK

M. Peter Andersen
Chef de Section,
Ministère de l'Agriculture

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FEDERALE

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Ministère fédéral de
l'Alimentation, de l'Agriculture
et des Forêts

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Mission permanente auprès de l'Office
des Nations Unies à Genève

M. Michael Rüter
Mission permanente auprès de l'Office
des Nations Unies à Genève

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Secrétariat général

M. A. Seguso
Chef de Division

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Representatives

Mr. Mahmoud A.B. Hamza
Minister Plenipotentiary,
Permanent Mission to the Office
of the United Nations at Geneva

Mr. Mahmoud El-Etreby
First Secretary,
Permanent Mission to the Office
of the United Nations at Geneva

FINLAND

Representatives

Mr. Antti Kuosmanen
Second Secretary,
Permanent Mission to the Office of
the United Nations at Geneva

Mr. Paavo Mäkinen
Agricultural Economist,
Agricultural Economic Research
Institute

HUNGARY

Representative

Mr. László Bartha
First Secretary,
Permanent Mission to the Office of
the United Nations at Geneva

JAPAN

Representatives

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First Secretary,
Permanent Mission to the Office of
the United Nations at Geneva

Mr. Takashi Kato
First Secretary,
Permanent Mission to the Office of
the United Nations at Geneva

NEW ZEALAND

Representatives

Mr. Gerard F. Thompson
Assistant Secretary,
Department of Trade and Industry

Mr. D.J. Greenfield
Counsellor (Economic),
Permanent Mission to the Office of
the United Nations at Geneva

Mr. H.S. Blackmoore
Executive Manager,
Department of External Policy

NORWAY

Representative

Mr. K.N. Hansen
Counsellor,
Ministry of Agriculture

POLAND

Representatives

Mr. J. Kaczurba
Permanent Representative to GATT

Mr. Z. Durnicki
Chief Adviser for Foreign Trade,
Central Union of Dairy Cooperatives

POLAND (cont'd)

Representatives (cont'd)

Mr. P. Rucinski
Foreign Trade Enterprise,
POLCOOP

Mr. L. Turlej
Advisor

ROUMANIE

Représentant

M. L. Paunescu
Représentant résident auprès
du GATT

SOUTH AFRICA

Representative

Mr. R.M. Gravelet-Blondin
First Secretary (Agricultural
Affairs),
Permanent Mission to the Office of
the United Nations at Geneva

SUISSE

Représentants

M. Michel Besson
Chef de Section,
Office fédéral des affaires
économiques extérieures

M. Warner Mahrer
Agronome,
Office fédéral del'Agriculture

M. W. Frunz
Secrétaire d'Ambassade,
Délégation près l'AELE et le GATT

SWEDEN

Representatives

Ms. Eidi Genford
Head of Section,
National Agricultural Marketing Board

Mr. Sven Malmberg
First Secretary,
Permanent Mission to the Office of
the United Nations at Geneva

UNITED STATES

Representatives

Mr. Anthony Cruit
Agricultural Counsellor,
Office of the Trade Representative
(Vice-Chairman of Council)

Mr. William Paddock
Agricultural Economist,
Foreign Agricultural Service,
Department of Agriculture

URUGUAY

Representante

Sr. Manuel Olarreaga
Ministro Consejero (Asuntos
Comerciales),
Misión Permanente ante la Oficina de
las Naciones Unidas en Ginebra

OBSERVERS FROM CONTRACTING PARTIES
OBSERVATEURS DES PARTIES CONTRACTANTES
OBSERVADORES DE PARTES CONTRATANTES

CANADA

Representative

Mr. Phillip G. Douglas
First Secretary,
Permanent Mission to the Office of
the United Nations at Geneva

Advisors

Mr. G. Choquette
Chairman,
Dairy Commission

Mr. C. Birchard
Senior Policy Advisor,
Dairy Commission

CHILE

Representante

Sr. Alejandro Jara
Consejero,
Misión Permanente ante la Oficina de
las Naciones Unidas en Ginebra

ESPAÑA

Representante

Sr. José Ramón Prieto
Consejero (Agricultura, Pesca y
Alimentación),
Misión Permanente ante la Oficina de
las Naciones Unidas en Ginebra

GABON

Représentant

Mme Dina Fanguinoveny
Premier Conseiller,
Mission Permanente auprès de l'Office
des Nations Unies à Genève

TURQUIE

Représentant

M. Mustafa Görson
Conseiller (Affaires financières
et économiques),
Mission Permanente auprès de l'Office
des Nations Unies à Genève

OBSERVERS FROM INTERGOVERNMENTAL ORGANIZATIONS
OBSERVATEURS D'ORGANISATIONS INTERGOUVERNEMENTALES
OBSERVADORES DE ORGANIZACIONES INTERGUBERNAMENTALES

ECONOMIC COMMISSION FOR EUROPE

Representative

Mr. G. Ferri
Economist,
Agriculture and Timber Division

FOOD AND AGRICULTURE ORGANIZATION

Representative

Mr. A. Purcell
Economist,
Office in Geneva

ORGANIZATION FOR ECONOMIC
CO-OPERATION AND
DEVELOPMENT

Representative

Mr. Daniel Béraud
Principal Administrator,
Agricultural Trade and Markets Division

UNITED NATIONS CONFERENCE ON
TRADE AND DEVELOPMENT

Representatives

Ms. S. Parisi

Mr. A. Polouektov