

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

SIXTEENTH SESSION

Draft Report

Chairman: Mr. T. Groser

1. The International Dairy Products Council held its fifteenth session on 19 March 1987.
2. The Council adopted the following agenda:
  - A. Election of Chairman and Vice-Chairman
  - B. Admission of observers under Rules 11 and 14 of the Rules of Procedure
  - C. Review of the functioning of the Arrangement
  - D. Evaluation of the situation in, and outlook for, the world market for dairy products
  - E. Tentative schedule of further meetings
  - F. Note by the Chairman on the present meeting
- A. Election of Chairman and Vice-Chairman
3. In accordance with Rule 2 of the Rules of Procedure, the Council elected Mr. T. Groser (New Zealand) as Chairman for 1987/88 and Mr. P. Huhtaniemi (Finland) as Vice-Chairman.

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

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

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

C. Review of the functioning of the Arrangement

Reports of the twenty-eighth and twenty-ninth sessions of the Committees of the Protocols

6. In accordance with Article IV:1(b), the Council reviewed the functioning of the Arrangement. For this review, the Council had before it the reports of the twenty-eighth sessions of the Committee of the Protocol Regarding Certain Cheeses (DPC/C/43), the Committee of the Protocol Regarding Certain Milk Powders (DPC/P/45) and the Committee of the Protocol Regarding Milk Fat (DPC/F/46). The Chairman mentioned that the full reports of the twenty-eighth sessions had been approved by the Committees recently and that these would be circulated shortly as documents DPC/C/44, DPC/P/46 and DPC/F/47. Furthermore, the Chairman of the Committees presented an oral report of the twenty-ninth sessions of the Committees.

7. The Committee of the Protocol Regarding Certain Cheeses, the Committee of the Protocol Regarding Certain Milk Powders and the Committee of the Protocol Regarding Milk Fat held their twenty-ninth sessions consecutively on 16 and 17 March 1987.

8. In conformity with the Rules of Procedure, Mr. P. Huhtaniemi (Finland) was elected as Chairman for the three Committees for 1987/88; no Vice-Chairman was elected.

9. After examining the replies to the questionnaires, the Committees considered the market situation for the products covered by each of the Protocols.

10. The Committee of the Protocol Regarding Certain Cheeses noted that world cheese production, at nearly 13 million tons, had been almost 1 per cent greater in 1986 than in 1985. Cheese consumption had continued to expand in 1986 and was expected to develop further in 1987. There were, however, some uncertainties as to further developments in demand for Cheddar cheese.

11. World exports of cheese declined for a second consecutive year in 1986, and were estimated to have reached some 865 thousand tons. However, towards the end of the year import demand showed signs of recovery and there was some hope for a better cheese market in 1987, although supplies remained plentiful and competition keen. Global cheese stocks were at the close of 1986, lower than at the end of 1985. The decrease was mainly due to the fall in stocks held by the United States.

12. The Committee took note of the information furnished by New Zealand regarding operations under Article 7:2 of the Protocol. It reverted to the examination of a communication from New Zealand concerning this participant's exports under that derogation (DPC/C/W/31). The Committee had before it a note by the secretariat on legal aspects of changing an interpretative statement by New Zealand concerning the application of Article 7:2 of the Protocol (DPC/C/W/32). The Committee noted the opinions expressed on the matter and it was felt that further reflections were necessary. It was agreed to revert to the New Zealand request at the next meeting of the Committee. Participants were invited to pursue, in the meantime, further consultations on the matter.

13. Market prices for cheese continued to vary according to types of cheese and market in 1986. With regard to Cheddar cheese, there was keen competition in several major markets and prices were under some pressure from the middle of 1986 on. Prices fluctuated between US\$1,050 and US\$1,200 per ton f.o.b. during the first quarter of 1987.

14. The Committee of the Protocol Regarding Certain Milk Powders noted that world skimmed milk powder production had risen by some 120 thousand tons to a total of 4.3 million tons in 1986. Most of the increase for 1986 occurred in the EC as surplus milk went into butter and skimmed milk powder manufacture. The high Community production in 1986 was considered to be rather accidental and it was expected that the 1987 production would be of a level of previous years. Efforts made in several countries to contain butter production, were likely to entail a reduced world production of skimmed milk powder in 1987.

15. Total world consumption of skimmed milk powder was slightly reduced in 1986. Demand of skimmed milk powder for feed purposes might continue to be affected by regulations of milk deliveries. However, the market outlook for milk powders for human consumption was fairly promising at the beginning of 1987.

16. There was a decline of nearly 2 per cent in world trade in skimmed milk powder in 1986, with reduced sales by all major exporting countries, with the exception of Canada and the United States. It was notably government-to-government sales of non-fat dry milk and sales of feed powder that boosted United States sales. Imports into OPEC countries fell by 7 per cent from 1985 to 1986 and demand for feed powder was lower than before in Europe and Japan.

17. At the end of 1986, the level of world stocks of skimmed milk powder was higher than at the end of 1985, primarily due to an increase in public stocks in the EC. Community skimmed milk powder stocks were at the end of 1986 at 772 thousand tons, 50 per cent above their level one year earlier. Present stocks were at 800 thousand tons.

18. Apart from some irregular movement in skimmed milk powder prices early in 1986, international prices for milk powders showed a slight but steady improvement throughout the latter part of 1986 and early 1987. Prices continued to firm in the first quarter of 1987, and were fluctuating between US\$750 and US\$900 per ton f.o.b. However, certain sales made by non-participants were reportedly effected at lower prices and were causing concern.

19. Aggregate output of whole milk powder increased slightly in 1986 in relation to 1985, as a decline in the EC was outweighed by an increase in Oceania. Trade in whole milk powder increased slightly in 1986 and import demand remained strong early in 1987. In the first quarter of 1987, prices fluctuated between US\$900 and US\$1,000 per ton f.o.b.

20. The Committee took note, with appreciation, of a paper prepared by the secretariat on the Chernobyl nuclear accident and dairy trade (DPC/W/69) and of the comments made. It noted the existence of a variety of measures and tolerance limits applied. It expressed the wish that the competent bodies would examine the possibility of achieving greater uniformity in this regard. It was felt that it would be useful that the governments notified any measures taken, under the procedures of the Agreement on Technical Barriers to Trade. It was requested that the secretariat should keep itself informed about the progress made with regard to problems related to nuclear contamination.

21. The Committee of the Protocol Regarding Milk Fat noted that world production of butter and butteroil had been estimated to be 7.8 million tons in 1986, which was about 2.4 per cent up from a year earlier. This was mainly due to the increase in Community butter production. This increase could be only partly outweighed by declines in other regions and countries. Butter supplies at the beginning of 1987 remained far in excess of market requirements and unless drastic measures were applied to dispose of the surplus, the butter market would remain a depressed one for a long time yet. However, mainly due to the rigorous measures adopted recently by the European Communities to cut down milk production, with consequent impact on butter production, forecasts for 1987 and onwards suggested a significant decline in total world butter production. Available information on consumption of butter indicated a slight decrease in 1986.

22. The markets for butter and anhydrous milk fat remained very difficult throughout 1986. World butter exports were estimated to have amounted to less than 600 thousand tons in 1986, in spite of considerable sales at discount prices below the minimum, and by derogation under Article 7:1 of the Protocol Regarding Milk Fat, of old butter and anhydrous milk fat to the USSR and Brazil. Hopefully, this might result in higher export

figures, but at the same time vegetable oils were available in great quantities and at low prices and the competition from margarine and other fats remained strong. By the end of 1986, world stocks of butter had reached 1.6 million tons of which Community butter stocks amounted to nearly 1.37 million tons. At present, these stocks were unchanged at the same level.

23. Appreciation was expressed concerning the series of measures adopted by the European Communities in December 1986, with the aim to reduce milk production by 9.5 per cent and to dispose of 1 million tons of butter throughout 1987 and 1988, at the cost of 3.2 billion ECU's. These actions were expected to entail consequent reductions in the supplies of butter and skimmed milk powder and the hope was expressed that this would provide a substantial relief to the dairy market.

24. The Committee took note of the notifications presented by the EC (DPC/F/W/26 and Add.1) in relation to the Decision adopted on 31 May 1985 (DPC/F/35), and the additional information furnished by the EC. It also noted the statements made by other participants and the concerns expressed with respect to effects on the market of the EC sales. It was furthermore noted that bilateral consultations were being held under paragraph 4 of said Decision. It was concluded that depending on the outcome of these consultations the matter might be reverted to at the next meeting or at a special meeting convened in conformity with paragraph 5 of the Decision.

25. Both butter and anhydrous milk fat prices remained very depressed in 1986 and early 1987. Moreover, certain offers and sales were reportedly made at less than the minimum prices. The need for close co-operation among participants was stressed in order to improve substantially the market and obtain an increase in market prices to levels well above the agreed minimum prices.

26. The Community representative expressed his concern with regard to offers and sales reported under the minimum price at the end of 1986. He said that it remained the strong intention of his authorities to look for an improvement in the situation. The Community procedures for fixing export refunds on anhydrous milk fat had been changed recently, with the

aim to achieve an improvement in world market prices. He invited other participants to join in the efforts to improve market prices. In this context he declared that it was the intention of his authorities to review the level of export refunds more frequently on the basis of an improved system of exchange of information with other participants.

27. The Committee noted a statement by Australia underlining the concerns of this participant with regard to the observance of the minimum price for anhydrous milk fat and the implications for Australia's future involvement with the Protocol Regarding Milk Fat if prices for butteroil were not maintained at or above the GATT minimum price.

28. The Committees took note of a paper by the secretariat on United States Exports of Dairy Products (DPC/W/68). The new Dairy Export Incentive Program adopted by the United States in February 1987 and the offers subsequently made of substantial quantities of fresh butter, non-fat dry milk, whole milk powder and Cheddar cheese to a number of countries, caused serious concern among other exporters to these markets. It was suggested that a communication might be addressed by the Council to the United States expressing the concerns of IDA participants with regard to the new Dairy Export Incentive Program and inviting the United States to observe the minimum prices fixed by the Arrangement. The hope was expressed that the United States would continue to play a responsible role in the international dairy market.

29. The next regular sessions of the Committees of the Protocols were to be held on 15 and 16 June 1987, subject to confirmation by the secretariat.

30. The Chairman thanked Mr. Huhtaniemi for his reports and invited comments on them.

31. The representative of New Zealand expressed his satisfaction with the reports of the Committees and found them to constitute a most useful set of basic information on and analysis of the market situation for the products covered by the Protocols. Although much of the information presented was of a historical nature, some current problems and issues had been addressed. As to some Community sales of butter under derogation, the reports accurately reflected the discussions that had taken place on that

particular issue and what stage they had reached. He noted that bilateral consultations were now being pursued and that depending upon the outcome of these, the matter might be reverted to at a future meeting. He reaffirmed the position of his delegation that it could not yet see itself in a position to present a definite judgement as to the acceptability of the sale as notified and related elements including matters relating to paragraph 4 of the Decision of 31 May 1985. The representative of Australia shared the views expressed by New Zealand relating to bilateral consultations. His delegation intended to pursue the bilateral consultations with the Community with the aim of reaching a satisfactory solution to the problems, but at the same time reserved its right to request a special meeting, if necessary.

32. The Community representative agreed that the reports faithfully reflected the work done in the Committees of the Protocols. As to the remarks made by New Zealand regarding the acceptability of the Community sales of old butter to the USSR, he reserved the position of his delegation. In his view, all conditions had been met and the acceptability was clear and would not have to be judged in light of the result of the on-going bilateral consultations. The consultation entered into in order to safeguard traditional sales of butter was entirely an issue of its own.

33. As to the suggestion made in the Committees to address a communication to the United States expressing concern with the effect of offers of dairy products in relation to the implementation of the Food Security Act of 1985 and the new Dairy Export Incentive Program, the Council agreed that the Chairman should inform the United States of the concern expressed, suggesting that whenever making offers and sales under the new Dairy Export Incentive Program, care should be taken not to disrupt international trade nor depress the prices of dairy products observed by the participants to the Arrangement.

34. The Council adopted the reports of the Committees and took note of the comments made.

Replies to Questionnaire 4

35. The Chairman recalled that Questionnaire 4 concerned information on milk and dairy products not covered by the Protocols. According to Rule 23 of the Rules of Procedure, annual data should be furnished two and a half months, at the latest, after the end of the period under review. At the time of the meeting, replies had been received from the following countries: Argentina, Australia, Bulgaria, Canada, European Communities, Finland, Japan, New Zealand, Norway, Poland, South Africa and Sweden. This information had been or would shortly be circulated in the DPC/STAT/-series. The Chairman urged participants that had not yet done so, to submit the information requested without further delay.

36. For New Zealand it was reported that milk production continued to be subject to substantial seasonal variations arising from the influence of climatic conditions on pasture growth. Variations of up to  $\pm 5$  per cent from the average were common (i.e. a variation of 10 per cent between a poor season and a good season). Production in the two seasons prior to the current one (1984/85 and 1985/86) was affected by very favourable weather conditions and significant increases in milk output were recorded. In the current season (1986/87) there had been a dramatic turn around and milk production was expected to be down by between 15 and 20 per cent. For the first eight months of the season, production was down by 10.1 per cent and in January, production was down by 18.6 per cent compared to the same periods in 1985/86. Production, measured in terms of milk fat processed, was not expected to reach 300 thousand tonnes of milk fat, and might even fall below 290 thousand tonnes, compared with 349 thousand tonnes in 1985/86. The major causes of the downturn were adverse climatic conditions, reduction in the price and the milk buyout programme. Cold wet conditions experienced in the early part of the season inhibited grass growth and reduced production. Unusually dry conditions experienced in all major dairying regions from mid-December to mid-February dried up pastures, reducing growth conditions and milk output. At the beginning of 1986/87, the price was cut by 44 per cent and remained at present 20 per cent lower than a year ago, an unprecedented reduction in New Zealand. The milk buyout programme operated by the New Zealand Dairy Board, at the beginning of the season, had restricted the production by 5,200 tonnes of milk fat.

Relative to last season, whole milk powder production might be maintained at the levels in earlier year, but the output of all other products would be down substantially: butter - 19 per cent; cheese - 16 per cent; skimmed milk powder - 22 per cent; and casein - 16 per cent. The impact on New Zealand's export supply position was that the export availability of all products would be extremely tight, with the exception of butter.

37. For Australia it was reported that milk production for 1986/87 was forecast to reach 5.95 million tons, which was marginally below the 1985/86 production of 6.04 million tons. No change was expected in the numbers of dairy cows and census figures for the end of March 1987 were expected to confirm this.

38. Romanian milk production, excluding milk fed to calves, totalled 4.6 million tons in 1985 and of this cow and buffalo milk accounted for 4.2 million tons. In 1985, milk output per capita had reached 253.5 litres.

39. For the European Communities it was reported that in spite of the application of quotas and super-levy, Community deliveries to dairies had increased by 1.4 per cent in 1986, compared to the previous year. However, he indicated that such a short-term comparison might give a wrong impression. The increase in 1986 was a "Betriebsunfall", a sort of operational accident, and compared to 1983 there was a decline in Community milk deliveries of 3 million tons, while for some other countries an increase of 4 million tons had been observed. The efforts undertaken to limit milk production had entailed an immediate reduction of the production potential as the Community dairy herd had fallen by 12 per cent from 1983 to 1986.

40. Finnish milk deliveries had been the same in 1986 as in 1985, namely 2.80 million tons. While the feed supplies in 1985 were characterized by a poor harvest both in terms of quality and quantity which was compensated for by a 25 per cent increase in purchases of feed concentrates; crops were excellent in 1986 and milk yields rose by 2.5 per cent. Milk deliveries in 1986 were however down by 4.5 per cent compared to 1984. Producers have gained experience with the quota scheme; managing better to fill the quotas and even finding profitable ways to exceed them. The agricultural production cessation scheme had been modified with the aim to

provide additional incentives to quit dairying. The quota scheme and the cessation scheme would be maintained and assuming normal feed supplies, milk deliveries were expected to be in the range of 2.77 to 2.79 million tons in 1987.

41. In Sweden the number of cows had declined from 1985 to 1986 and milk production fell by 4.4 per cent. In Hungary, milk production in 1986 remained at 2.6 million tons, the same level as in previous years.

42. Statistics for the period of August to October 1986 for Canada showed a decline in deliveries of milk and cream of less than 0.5 per cent compared to the same period in 1985. Deliveries of industrial milk and cream fell by 1 per cent, while those of milk for fluid purposes rose by a similar rate reflecting increasing demand. The decline in total deliveries in that period was mainly due to low quality of forage harvested. However, it was expected that milk deliveries would recover in the spring and expectations for 1986/87 as a whole indicated a slight increase of some 0.5 per cent in deliveries of industrial milk over the previous year, and total deliveries to increase by less than 1 per cent and present trends were expected to continue in 1987/88. Disappearance of milk would remain at current levels and the switch to low fat milk would continue but perhaps level off.

43. The Council took note of the information provided and of the comments made.

#### Replies to Questionnaire 5

44. The Chairman recalled that the inventory of measures affecting trade in dairy products, including commitments resulting from bilateral, plurilateral and multilateral negotiations had been due for a complete up-date and revision in 1986. The inventory at present contained information for Argentina, Australia, the European Communities, Finland, Japan, New Zealand, Norway, Poland, Romania, South Africa, Sweden, Switzerland and Uruguay, which had been distributed in the DPC/INV/3/-series. Information submitted recently for New Zealand, Romania, South Africa and Sweden would be distributed shortly as supplements. The

Chairman urged all participants that had not yet done so to take the necessary steps to ensure that the relevant information would reach the secretariat as soon as possible. He suggested that the secretariat might send out some form of reminder in that respect.

45. The Community representative apologized for not yet having submitted the reply to Questionnaire 5. For the moment, policy measures were still subject to consideration in various Community institutions and a more complete report could only be made later during the spring.

46. The Council took note of the information submitted and the comments made.

D. Evaluation of the situation

47. The Chairman drew the attention of the Council to the documentation prepared by the secretariat in order to facilitate the discussion on this item, namely documents DPC/W/67 to 70. He noted that these papers had already been subject to discussion in the Committees of the Protocols, but invited delegates to make further comments if they so wished.

48. The Community representative reported on various steps taken recently in order to remedy the situation in the dairy market. A set of fundamental reforms had been adopted by the Council of Ministers of Agriculture in December 1986 and in March 1987, concerning the market organization for milk and dairy products. It approved political guidelines designed to implement a socio-structural policy closely adapted to the present situation in rural areas. This political agreement, one of the most important reached since the inception of the CAP, was in line with the Commission's proposals and with the efforts it had been making for years to restore sound conditions on the agricultural markets and curb the growth of surpluses and the resulting costs to the Community budget. When adopting these decisions, the Council was particularly attentive to the specific agricultural characteristics of certain member States and to the need to cushion the impact of the measures on farm incomes, particularly those of small farmers. This objective was also pursued through the adoption of socio-structural support measures. The measures adopted constituted a major step towards the control of overall agricultural expenditure by 1989, which was a key aspect of the debate on the future financing of the Community.

49. The Council's decisions of December 1986 entailed, firstly, a reduction in milk output by 9.5 per cent over two years, as follows: 3 per cent by an equivalent reduction in milk quotas, already approved in April 1986 by the Council; 5.5 per cent by the temporary suspension of quotas of the same percentage; and 1 per cent through the tightening up of certain rules relating to the application of the quota scheme. Secondly, the Council's decisions entailed a restriction of the intervention arrangements designed to cut back the quantities of butter and milk powder entering intervention stocks. As to the reduction in milk quotas, the Council had already, in April 1986, decided to reduce overall guaranteed quantities by 2 per cent from 1 April 1987 onwards and by a further 1 per cent from 1 April 1988. To achieve these objectives, a Community financing scheme was set up on 1 May 1986 to cover the definitive cessation of milk production, equivalent to a system of "buying-up" milk quotas. This arrangement provided for the allocation, to any farmer, at his request, provided he met certain eligibility conditions, of an allowance against an undertaking on his part to totally and definitively cease producing milk. The maximum allowance chargeable to the Community budget had been fixed at 4 ECU per year per 100 kgs. of milk or milk equivalent, for seven years. In addition, member States might contribute to the financing of this scheme by increasing the allowance and continue to apply national quota buying-up arrangements. On 16 December, the Council confirmed the 2 per cent reduction in the quota agreed in April, to be implemented by a scheme for the voluntary cessation of milk production. The allowance granted to farmers discontinuing production was increased from 4 to 6 ECU per year per 100 kgs. As envisaged in April, insofar as the objective of buying up 2 per cent of the overall guaranteed quantities could be achieved by the granting of an allowance below the maximum level indicated above, residual EAGGF funds might be used by member States for restructuring purposes. Production would be further reduced by 4 per cent on 1 April 1987 through a temporary linear suspension, and not by the definitive elimination of the quota. It was also decided to apply an additional reduction in output of 2.5 per cent for 1988/89, the last marketing year during which the current five-year milk quota system would operate. The reduction would be achieved by a further reduction of 1 per cent in the quota approved in April 1986, on the same terms as those referred to above and a further temporary suspension of 1.5 per cent of the quota similar to that of 4 per cent decided for 1987/88 and onwards.

50. As to strengthening the quota system, a waiver allowing the member States to allocate unused reference quantities to farmers or purchasers in the same region, and, where appropriate, other regions, already in force for the first three periods of implementation of the quota system had been extended until the expiry of the present quota system. A formula of the quota system, which provided for the application at the level of the purchaser of the levies on quantities exceeding the reference quantity was also retained until the expiry of the quota system. With a view, however, to achieving a fairer arrangement for the additional levy, which was a stronger deterrent, the levy rate was raised to 100 per cent of the milk target price also applicable to the levy to the individual producer.

51. With regard to the adjustment of the intervention system, he said that the intervention for skimmed milk powder had been suspended from 1 September to 28 February, it being understood that the Commission would take appropriate action to maintain the stability of the skimmed milk powder market during that period. Furthermore, intervention purchases of skimmed milk powder could be suspended whenever the quantities offered exceeded 100 thousand tons without taking into account the volume offered before 1 March. If necessary, the Commission could suspend temporarily, in exceptional circumstances, buying-in of butter and skimmed milk powder at any time of the year. With regard to the intervention system for butter, the current system would be maintained during the transitional period and the present delays in payments and intervention buying-in would be maintained. The transitional period would end some time after 1 April 1987, and as soon as the volume of butter offered for intervention would exceed 150 thousand tons. To prevent speculation during the month of March when normally 30 thousand tons of butter would be offered, a limit would be set at 180 thousand tons. When the limit of 180 thousand tons for offering butter for intervention had been exceeded, the Commission could suspend intervention purchases in the whole Community or a part of it, but nevertheless observe the principle of non-discrimination as between member States. The Commission could resort to other means as well in order to support market prices and avoid the triggering of a downward spiral movement. If market prices in one or more member States should fall below 92 per cent of the intervention price, intervention purchases could be resumed in the States concerned. In any case, whenever physical stocks might exceed 350 thousand tons and without taking into account quantities offered before 1 March 1987, the floor price might be modified from 92 to 90 per cent of the intervention price.

52. Other important considerations were that the European Communities would ensure that in future international trade negotiations, that is to say in the Uruguay Round, the quota reductions already agreed were not simply taken for granted and that full advantage was taken of the temporary suspension of quotas in negotiations designed to ensure that other exporters would take matching action to help underpin the stability of the world dairy market. The European Communities would count on the collaboration of other partners in a future round of negotiations. It would adopt an approach ensuring consistency between its dairy policy and policies on related sectors and between measures concerning its internal market and its policy relating to world markets. It was its firm intention to pursue a vigorous programme for running down stocks as explained concerning the stabilization of the market in milk and dairy products and to eliminate obstacles to such stabilization of prices and the market. In reply to a comment by New Zealand, the Community representative said that some time would be needed before the full effect of the measures adopted could be felt, but the implementation of the measures was nevertheless likely to have an immediate psychological effect.

53. The representative of Romania reported that the system of compulsory quotas and supply tasks had been abolished and replaced by an unitary system of contracting for the purchase of agricultural products from agricultural production co-operatives, their members and private producers establishing firm obligations. The unitary contracting system also defined the tasks and liabilities of the socialist production units, which would accept delivery of agricultural products from co-operative farmers and private producers, assuring reasonable and stable prices for the products delivered. Each co-operative member was responsible for breeding a certain number of cattle and poultry related to the size of his household. The households belonging to co-operatives and private producers must according to the contract, supply at least 800 litres of milk for each cow and at least 17 litres of milk for each sheep or the equivalent in dairy products. Households having a larger number of cows and which produced more than was needed by themselves should deliver all milk produced in excess of their own needs to the State. The State granted contractual prices and incentive purchase prices to State agricultural units, as well as to members of agricultural production co-operatives and to private producers. The

contractual prices for milk and cream in respect of the agricultural co-operative units, their members and the private producers constituted purchase ceiling prices. The Ministry of Food Industry and Agricultural Product Purchase was responsible for establishing contracts and making purchases of oxen, cattle and poultry, milk and dairy products and eggs from all the categories of producers. Besides production prices, contracting and purchase prices, agricultural producers earned bonuses and allowances with the aim of stimulating and increasing the cattle supply to the State Fund. Certain quantities of fodder were allocated to producers in relation to the type, category and number of cattle they held.

54. In Finland, the Farm Closure Act had been revised in August 1986. The Act had originally been enacted in 1974 and provided for a "farm closure" pension to eligible farmers, aged 55 years or more, who agreed to cease production for the rest of their lives and sell their farm to a neighbouring farmer either directly or through the State in order to improve the structure of agriculture. Alternatively, a farmer could afforest his arable land. The changes made to the Act allowed the farmer to retain his land and return to production after six years of cessation. The pension was paid regressively to 15 hectares but was not restricted to any specific form of production and hence applied to dairy. Some 3,000 or even more applications for the pension had been received in 1986, compared to the figure of around 500 in previous years.

55. The representative of New Zealand expressed his recognition for the very comprehensive information provided on the Community dairy policies, and thanked them for the explanations and assessments given. He also stated his appreciation of the secretariat note DPC/W/67 and noted some interesting comments and observations contained therein. He recognized the difficulties encountered when trying to evaluate the impact of various measures taken to contain production. The report nevertheless indicated that for 1986, there was no clear evidence that the upward trend in production had been halted and Community production had increased further in 1986, both in the case of milk, butter and skimmed milk powder. He would nevertheless give credit to the Community for making attempts to curb its production of milk and dairy production and would follow with great interest further developments and be grateful for any comments on the historical success of new measures.

56. The representative of Australia said that his authorities had been following with great interest the Community efforts to reform its dairy regulations. He hoped that this would lead to more realistic production levels and to the reduction of stocks of butter and skimmed milk powder which at present destabilized the world market. Australia had done some calculations of its own and found that Community production had been running ahead of quotas in recent years. These calculations indicated that a cut of more than 11 per cent in quotas would have been more appropriate than just 9.5 per cent, in order to bring some sort of balance into the system. He felt the Community efforts were nevertheless a good start and he would watch further developments with interest. He asked whether further details on pricing arrangements for 1987/88 could be given and how they would reinforce the cut in quotas. He noted the Community invitation to other countries to join in the efforts made to cut milk production and thereby support the thrust of the Community measures. He felt it to be appropriate though, that members ought to be aware of Australia's concern that other countries should not be expected to share the burden of adjustment in international trade, when it was clear that the prime cause of the disturbances of the market was the Community domestic policy and price support and the adjacent build-up of intervention stocks over the past few years. He drew the attention of the Council to the significant restructuring that the Australian dairy industry had undergone in recent years and the new government measures introduced in 1986 having the effect of exposing Australian dairy exporters to international competition to an even greater extent than before. He noted with concern that some countries were still applying measures that actually did stimulate milk production and he expressed strong support for efforts made to wind back such measures.

57. The Community representative in reply to the question on prices for 1987/88 said that it was not customary to discuss such price proposals before the Council had adopted a decision on these, and he could consequently not give further details or pass any judgement on the matter at present. What he could say though, was that the price proposals for 1987/88 were part and parcel of the attempts to stabilize the market and to adjust supply to demand. He could also add that the actual proposals had met with strong opposition among farmers' associations.

58. The Council took note of documents DPC/W/67, DPC/W/68, DPC/W/69 and DPC/W/70 and the statistical information contained in DPC/W/66, DPC/P/W/32/Rev.4, DPC/F/W/22/Rev.4 and DPC/C/W/30/Rev.4, and of comments made as to the content of this documentation, and the secretariat would take account of this in its further work on the documentation. The Council furthermore noted the additional information provided by delegates under this item and of the comments made thereon.

E. Tentative schedule of further meetings

59. The Chairman recalled that at its September 1986 session, the Council had adopted a tentative schedule of regular meetings in 1987, according to which the next meeting of the Council would take place on 24 and 25 September 1987 (DPC/26, paragraph 61). The dates would remain subject to confirmation by the secretariat.

F. Note by the Chairman

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

"1. The International Dairy Products Council held its sixteenth session on 19 March 1987.

2. Mr. T. Groser (New Zealand) was elected Chairman for 1987/88 and Mr. P. Huhtaniemi (Finland) was elected Vice-Chairman of the Council.

3. Under Rules 11 and 14 of the Rules of Procedure, the Council invited representatives of Panama and the Economic Commission for Europe, FAO, IMF, OECD and UNCTAD to attend the session as observers.

4. The Council reviewed the functioning of the Arrangement. It took note of reports on the implementation of the Protocol Regarding Certain Cheeses, the Protocol Regarding Certain Milk Powders and the Protocol Regarding Milk Fat and also noted the concerns expressed with regard to the situation in the market for the products covered by the Protocols.

5. The Council took note of the information submitted recently in reply to questionnaires 4 and 5, concerning products not subject to the provisions of the Protocols and concerning domestic policies and trade measures. Participants that had not submitted all the information requested were urged to do so as soon as possible.

6. For its traditional evaluation of the situation in, and outlook for, the world market for dairy products, the Council, in addition to the reports from the Committees of the Protocols, also had before it two documents prepared by the secretariat, namely a status report on the world market for dairy products and a note on food-aid operations as well as the relevant statistical information. The Council took note of the documents and comments made.

7. World milk production had continued to increase at a rate of 1.5 per cent in 1986, but the growth was expected to level off in 1987, assuming that measures applied in several countries to contain the production would yield the results hoped for. However, ample availabilities of feed, low feed prices and the introduction of new techniques, such as the use of bovine growth hormones to dairy cows, may result in any forecasts for the next few years being less reliable.

8. The Council noted with concern a strong decline in international butter trade and a further accumulation of stocks in 1986 and early 1987. World stocks of butter had at the end of 1986 reached 1.64 million tons of which Community stocks accounted for 1.37 million tons. The Council noted with appreciation the information that the

European Communities had taken steps to reduce significantly milk production and to reduce stocks of butter. Import demand for cheese and skimmed milk powder had shown some weakness in 1986, but the outlook for the immediate future gave rise to some hope for improvement.

9. Export prices for butter and anhydrous milk fat had remained very depressed throughout 1986, and no rapid improvement was in sight early in 1987. Prices for cheese and milk powders had shown slight improvements in 1986, and expectations were fairly promising for further improvements in 1987.

10. Renewed efforts made late in 1986 and early in 1987 by the European Communities and the United States, to dispose of dairy surpluses abroad, were creating uncertainties in the world dairy market. The Council noted that consultations between the Community and other participants were being pursued in order to alleviate problems caused to traditional trade of butter. It was agreed that the Chairman of the Council should inform the United States of the concern expressed, suggesting that whenever making offers and sales under the new Dairy Export Incentive Program, care should be taken not to disrupt international trade nor depress the prices of dairy products observed by the participants to the Arrangement."

61. This was agreed by the Council and the note was circulated in document L/6143 dated 23 March 1987.

62. The sixteenth session of the International Dairy Products Council was then closed.