I. INTRODUCTION

At the request of the Government of New Zealand, the Council decided at its meeting on 24 March 1961 that arrangements should be made for a multilateral consultation, under the provisions of paragraph 1 of Article XXV, on the difficulties recently experienced in the marketing of butter. Subsequently the following countries and inter-governmental organizations were represented at the consultation which took place from 17 to 21 April 1961: Argentine, Australia, Austria, Canada, Denmark, Finland, France, the Federal Republic of Germany, Ireland, Italy, the Kingdom of the Netherlands, New Zealand, Norway, Poland, Sweden, Switzerland, the Union of South Africa, the United Kingdom of Great Britain and Northern Ireland, the United States of America, the EEC, the FAO, and the OEEC. Representatives of Governments participating in the consultation felt that this procedure was justified in view of the present trend of price levels in the United Kingdom market, particularly taking into account the further deterioration in the situation during the past few months. The gravity of the problem and the present outlook for butter imports into the United Kingdom market in the near future make it necessary for Governments to consider the possible adoption of urgent measures in order to avoid a crisis such as the one which occurred in 1958. Furthermore, the problem of the marketing of butter in the United Kingdom market should not be considered as an isolated case but as one example of the type of action that may be taken by contracting parties in the commodity field.
II. THE MARKET SITUATION

Butter production has risen in recent months mainly in Western European countries in accordance with the rise in milk production (see table 5 of Spec(61)135); this increase has largely been brought about by favourable climatic conditions. Of great importance with respect to recent developments in prices is that the present level of stocks is high in a number of countries. The following table provides an estimate of butter stocks existing in the group of twelve OEEC countries and a number of countries as of 1 April 1958 to 1 April 1961.

<table>
<thead>
<tr>
<th>OEEC Countries</th>
<th>Finland</th>
<th>Australia</th>
<th>New Zealand</th>
<th>United States</th>
<th>Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>1958</td>
<td>135,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1959</td>
<td>56,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>104,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1961</td>
<td>105,000</td>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>

Under present circumstances it appears unlikely that exporting countries will be able to dispose of their surplus on markets other than the United Kingdom. Consequently, it is anticipated that the accumulative pressure of such supplies being disposed of on the London market might result in a further reduction in prices, in fact, the present price level is already much lower than prices in effect in many other countries and can scarcely be regarded as an economic price level even for efficient producers.

III. ANALYSIS OF CONTRIBUTING FACTORS

The countries represented have considered the elements contributing to the decline in the price level, and have agreed to the following analysis:

(a) The number of countries exporting butter to the United Kingdom has increased in recent years and the smaller suppliers have, as a whole, delivered more significant quantities. Furthermore, the price and marketing policies of some countries have in certain instances resulted in sales on the London market at uneconomic prices.
(b) Supply has increased more than demand and as a result of the free play of the law of supply and demand on the London market, this has resulted in a serious drop in prices. This development has been further aggravated by the pressure provided by the existence of large stocks.

(c) It has been found that prices quoted on the London market were lower than the production costs even in the most economic producing countries; representatives of participating Governments are of the opinion that such a situation cannot be maintained without some form of government support unless farm income is accordingly reduced.

(d) The United Kingdom is the only open market for butter imports. Further, this is practically the only country where no measure whatsoever is applied to control the market.

IV. CONCLUSIONS AND PROPOSALS

The representatives of participating Governments noted that the CONTRACTING PARTIES could remedy a situation such as the one described above by applying the relevant Articles of the General Agreement, namely Article VI and paragraph 3 of Article XVI, but they felt that in addition to these possibilities they should also draw the attention of Governments concerned to the recommendations and proposals given below. These proposals aim at assisting to stabilize the market and should, in the view of the consulting countries, be regarded as a guide for the Governments in defining their policies with respect to the marketing of butter. Representatives of the participating Governments endorsed the following recommendations adopted by the OECO Committee of Deputies.
OEEC Committee of Deputies Conclusions and Proposals*

11. The Committee recalls in this connexion:

(a) the Recommendation made in similar conditions, in 1958, by the Council of the Organisation, namely:

(i) to promote increased consumption of milk and dairy products by such measures as propaganda, free or cheap distribution;

(ii) to raise butter consumption in particular, especially by reducing the retail price and charging special prices for refrigerated butter;

(iii) as far as the exporting countries are concerned, to restrict as far as possible the supply of subsidized butter on the international market, especially by taking steps to dispose on their home markets of all or part of the surplus which threatens to flood the market. To this end, no new subsidies should be granted for the export of butter and the existing subsidies should be cut;

(iv) as far as importing countries which protect their markets are concerned, to bear in mind the effects which their import restrictions have on prices on the markets which remain open, to refrain from reinforcing such restrictions and to relax them as early as possible, with a view to the progressive improvement and restoration of the trade situation;

(b) the Recommendations made by it in September 1960 under which -

(i) OEEC countries which are not traditional suppliers of butter to the United Kingdom market were invited to avoid exporting — directly as well as indirectly — to that market;

(ii) OEEC countries which are traditional marginal butter suppliers to the United Kingdom market were invited to export only normal quantities to that market and thus endeavour to reduce the present gap between their butter prices and prices quoted by the main suppliers on that market;

*Report adopted by the OEEC Committee of Deputies of the Ministers of Agriculture and Food at its thirty-third session (13 - 14 April 1961).
OEEC countries which are important traditional suppliers were invited also to endeavour not to exceed the quantities normally exported in this period to the United Kingdom market;

greater efforts should be made to increase sales on the home market, notably by price reductions for consumers as a whole or for certain groups of consumers. The incorporation of more butter fat in liquid milk and dairy products should be contemplated if this is calculated to bring about greater total consumption of milk fat;

at the same time, in order that efforts of Member countries to deal with the situation are not nullified by abnormal sales on the United Kingdom market, as the main importing country, it was invited to discuss this understanding with other countries supplying butter to that market who are not Members of the Organisation.
In addition, the consulting countries agreed on the following points:

(i) Countries which, as a result of their agricultural price and income support policies, have supplies of butter, surplus to domestic requirements, should exercise restraint in the level of supplies being sent to the United Kingdom in the present period and are exporting them in such quantities as to secure more than an equitable share of world trade in butter.

(ii) Exporting countries should have regard to the need for the phasing of supplies in the light of the market situation and also to the orderly marketing of surplus stocks.

(iii) Governments should co-operate by not granting new subsidies on the export of butter and by substantially reducing or eliminating existing subsidies, if they result in the country concerned securing more than an equitable share of the world trade in butter as far as so-called world prices will reach an adequate level.

(iv) Governments should, particularly by adopting a more liberal attitude to imports of butter and by taking the measures set out below, co-operate in creating opportunities for present exporters to divert supplies from the United Kingdom market. Governments of traditional or potential importing countries should, by adopting a more liberal attitude towards imports of butter, help to relieve the pressure on the United Kingdom market.
Governments of exporting and importing countries should, by taking the measures set out below, seek to relieve the pressure on the United Kingdom market in the present period by: (a) adopting or maintaining policies designed to raise the consumption of dairy produce within their own territories, such as welfare programmes and the encouragement of price reductions in appropriate circumstances in favour of all consumers or at least certain groups of them; (b) adopting or maintaining policies designed to reduce the proportion of liquid milk entering into butter production, for example, by raising the fat content in liquid milk consumed in their territories; and (c) limiting or maintaining limitations on the extent of assistance to producers of milk and butter in order to avoid the creation of surpluses which can only be disposed of on the United Kingdom market.

(v) The governments of exporting and importing countries should adopt policies designed to raise the consumption of dairy produce within their own territories. Measures designed to achieve this end would include welfare programmes and the encouragement of price reductions in favour of all consumers or at least certain groups of them.

(vi) The governments of exporting and importing countries should adopt policies designed to reduce the proportion of liquid milk entering into butter production, for example by raising the fat content in the liquid milk consumed in their territories.
(vii) The governments should limit the extent of assistance to producers of milk and butter in order to avoid the creation of surpluses which can be disposed of on the United Kingdom market only by means of export aids; such action should also make it possible to enlarge other countries’ opportunities to export butter to their territories. Moreover, action on these lines would encourage the shift of resources from dairying to the production of commodities to which resources are better allocated; and further efforts towards improving productivity by a reduction in costs rather than an increase in output.

The governments of the importing countries should take appropriate measures with a view to co-operating in the stabilization of the prices for domestic and imported butter on their respective domestic markets at an adequate level which would not be lower than the average domestic cost of production.

In making these proposals the consulting countries stressed that the suggestions referred to above should not be construed in such a manner as to weaken the obligations of the CONTRACTING PARTIES under Article XVI of the General Agreement. Moreover, when these suggestions are examined by the CONTRACTING PARTIES Governments should be invited to indicate in a precise manner the measures which they may be prepared to consider in relation to the proposals mentioned above.