Article XXV Consultation on Butter

REPORT OF THE DRAFTING GROUP

Consultation on the Marketing of Butter
in the United Kingdom

I. INTRODUCTION

1. 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.

2. The Council felt that this procedure was justified and urgent in view of the special character of the trade in butter and the present trend of price levels in the United Kingdom market, and also taking into account the possibility of further deterioration in the situation during the next few months. The following countries and inter-governmental organizations were represented at the consultation which took place from 17 to 19 April 1961: Argentina, Australia, Austria, Canada, Denmark, Finland, France, the Federal Republic of Germany, the Irish Republic, Italy, the Kingdom of the Netherlands, New Zealand, Norway, Poland, Sweden, Switzerland, the Union of South Africa, the United Kingdom, the United States of America, the EEC, the FAO, and the OEEC.

3. Consulting countries recognized the serious long-term implications of this problem but the gravity of the present situation and the 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 short-term measures in order to avoid a crisis such as the one which occurred in 1958. Furthermore, this approach to 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.

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II. THE MARKET SITUATION

4. Butter production has risen in recent months in many western European countries in accordance with the rise in milk production which has been influenced by an early spring. Total new supplies of butter on the United Kingdom market were 399,000 tons in 1957, 453,000 in 1958, 415,000 in 1959, 445,000 in 1960. Indications are that in 1961 they may be some 5 per cent higher than in 1960. Total imports in the first two months of 1961 were higher than in the two previous years as shown in Annex B which provides statistics on production, consumption and stocks in the United Kingdom market. Of great importance with respect to recent developments in prices is that the level of stocks in the main producing or consuming countries at the beginning of April amounted in 1958 to approximately 300,000 tons, in 1959 to 200,000 tons, in 1960 to 240,000 tons and they are estimated at 260,000 in 1961. Consumption in the United Kingdom has increased less than total available supplies.

5. Under present circumstances it appears unlikely that exporting countries will be able to dispose of any substantial part of their supplies on markets other than the United Kingdom. Consequently, it is anticipated that under the present marketing conditions the cumulative 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 is not regarded by exporters as an economic price level even for efficient producers.

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1 Argentina, Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, the Republic of Ireland, Netherlands, New Zealand, Norway, Portugal, Sweden, Switzerland, United Kingdom and United States.
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) 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 and this has resulted in a serious drop in prices. The uncertainty in the market is further aggravated by the existence of unusual stocks in a number of countries which might find an outlet on the United Kingdom market.

(b) In recent years there has been an upward trend in the level of total supplies. The small suppliers have on the whole delivered more significant quantities and have taken a greater share of the United Kingdom market.

(c) Although prices received on the London market are regarded by exporters, even the most efficient producers, as uneconomic, supplies have continued at a high level. This situation cannot be maintained in the long run without some form of government support or reduction in farm income or both. The price and marketing policies of many countries have involved increased sales on the United Kingdom market at heavily subsidized prices.

(d) The United Kingdom is the only significant market without quantitative import restrictions of general application on butter. No measures are applied to control prices on the market.
IV. CONCLUSIONS AND PROPOSALS

7. The representatives of participating governments drew special attention to the fact that certain Articles of the General Agreement, notably Article VI and Article XVI, in particular paragraph 3, could be applied to certain aspects of the present situation. The representatives of consulting governments noted the proposals and recommendations made by the OEEC Committee of Deputies at their meeting on 13-14 April 1961 and which are included in the report attached as Annex A to this report. As noted in Section I above, the representatives of consulting governments recognize the urgency of the present situation and consider that the OEEC proposals which aim at improving market conditions should be regarded as a guide for governments in defining their policies with respect to the marketing of butter.

8. The consulting countries stressed that the suggestions referred to in Annex A should not be construed in such a manner as to weaken the rights or obligations of contracting parties under Articles VI or XVI of the General Agreement. The consulting countries suggest that the CONTRACTING PARTIES consider the means by which the conditions in the butter market and action taken in accordance with these recommendations might be kept under review.