I. Introduction

1. At its meeting on 24 March 1961, the Council was requested by the Government of New Zealand to arrange a multilateral consultation under paragraph 1 of Article XXV on the difficulties experienced by New Zealand in marketing butter in the United Kingdom. A consultation was subsequently held in April 1961, in which nineteen contracting parties and associated governments participated. A report on the consultation is contained in document L/1453. During the eighteenth session it was recognized that the situation in the butter market remained serious and that the Article XXV consultations in April should be followed up. The CONTRACTING PARTIES took note of the report on the consultation as a progress report, and invited the consulting countries to continue their consultations in June. The following governments and intergovernmental organizations were represented at the second consultation which took place from 19 to 22 June 1961:

- Argentina
- Australia
- Austria
- Belgium
- Canada
- Denmark
- Finland
- France
- Federal Republic of Germany
- Ireland
- Kingdom of the Netherlands
- New Zealand
- Norway
- South Africa
- Switzerland
- United Kingdom
- United States of America
- Sweden
- European Economic Commission
- Food and Agriculture Organization of the United Nations
- Organization for European Economic Co-operation
II. The Market Situation

2. The consulting countries noted that the situation in the United Kingdom butter market had not changed substantially since the previous consultation at which time the gravity of the situation was recognized. Total estimated new supplies of butter on the United Kingdom market during April, May and June 1961 exceeded supplies for corresponding periods in 1960. Similarly, the United Kingdom stocks during this period were higher than for the corresponding months in 1960; United Kingdom consumption, although increasing slightly in recent months, had not been sufficient to offset increasing stocks. The present situation in the United Kingdom market made it unlikely that there would be any upward movement in prices in the coming months. On the other hand, the fears expressed during the first consultation, that under the marketing conditions existing at that time the cumulative pressure of supplies on the United Kingdom market might result in a further reduction of prices, did not materialize. Nevertheless, the downward pressure on United Kingdom prices continued despite the fact that these prices remained much lower than prices in effect in most other countries and could not be regarded as economic prices, even for efficient producers.

III. Review of action taken in accordance with recommendations.

3. In their first report the consulting countries, in addition to drawing attention to Articles VI and XVI of the General Agreement which could be applied to certain aspects of the situation, noted the proposals of the OMC which aim at improving market conditions for dairy products. The consulting countries had recommended that the OMC proposals should be regarded as a guide for governments in defining their policies with respect to the marketing of butter. During the second consultation, the participating governments examined the extent to which governments concerned have been able to apply these recommendations.

4. Most participating countries stated that their respective governments were endeavouring to follow the recommendations; many governments had taken action with respect to the recommendations,
primarily with a view to increasing consumption and in a few cases to limiting the rate of exports. On its part the United Kingdom had held discussions with several non-ODEC countries and had stressed the importance attached by the United Kingdom to efforts to carry out the recommendations. The Netherlands had increased the amount spent on publicity with a view to increasing consumption, had increased amounts spent on school milk programmes, had made available cold storage facilities at special rates, had removed import restrictions, had increased home consumption and had increased the fat content of milk. New Zealand had maintained a very high per capita consumption by a consumer subsidy, intensive publicity, etc., and had exercised self-restraint regarding exports, which was evident by existing high stocks. In addition to measures to increase domestic consumption, in 1961 Norwegian butter sales to the United Kingdom were reduced by 13 per cent, and stocks were normal. Exports during the second half of 1961 were expected to be smaller than for the corresponding period of 1960. In Ireland, farmers were bearing a portion of losses on exports, a Dairy Products Board functioned to divert milk away from butter production, a lower ceiling was imposed on the volume of exports, and prices were permitted to rise. Finland implemented measures which had a restrictive effect on production, and aimed at increasing consumption. Price policy was designed to be less favourable to milk production and to favour other livestock products and grains, and steps were taken to limit imports of feeding stuffs. Butter consumption had increased by 15 to 20 per cent during the first five months of 1961 as compared to the corresponding period for 1960. There had been some success in finding new external outlets for milk products. In recent years the United States had not been exporting butter to the United Kingdom. Domestically, efforts were being made to increase consumption within the framework of the price support programme. Stocks had increased, however, from 34,8 thousand tons in January 1961 to 55,8 thousand tons in May. There was a tendency in the United States towards a relaxation of imports of agricultural products; import fees on vegetable oils had been abolished and the tariff commission had instituted in May 1961 an investigation to determine whether additional quantities of blue mould and cheddar cheese would be imported into the United States.
Danish butter production in 1961 was estimated to be some 3 per cent lower than in 1960. Domestic consumption in 1961 was expected to be about 2 per cent higher than the preceding year. Exports to the United Kingdom in 1961 were expected to be some 25 per cent lower than those in 1960. During 1959-60, Canada had exported at a loss about 13 million pounds of butter to the United Kingdom following the shortage in Europe and after consultation with other interested suppliers. Butter production had not shown an increase in recent years. Stocks in 1961 were estimated to be somewhat higher than in 1960. Efforts were being made to increase domestic consumption and to reduce production. The Agricultural Stabilization Board was now authorized to purchase the whole production of milk products for donation purposes with a view to diverting production from butter. In Belgium, exportable surplus of butter were not the result of national policy but rather the result of fraudulent imports. Domestic consumption had increased by some 3 per cent through the implementation of various programmes including the distribution of milk to schools. The Government had decided to increase the fat content of liquid milk. Efforts were also made to increase domestic consumption of other dairy products such as skim milk. Butter production was stabilized.

Australia already had a high level of per capita butter consumption and a high rate of fat content in liquid milk. Amongst other measures a school programme had been implemented to increase domestic consumption. Serious efforts were being made to find new outlets for butter. Austrian exports to the United Kingdom had been declining since 1958. In order to increase domestic consumption, a distribution programme was enforced. The butter fat content of milk had been increased. There would also be some reduction in domestic production. Domestic guaranteed prices would apply only to certain qualified farmers and more incentive was given to livestock production than to milk production.

In Argentina, butter production was more or less at a stable level with some declining tendencies. Stocks had been decreasing and in April 1961 were about 13 per cent less than in 1960. Present indications were that domestic production in future would decline and
exports to the United Kingdom would be somewhat lower than in 1960. Efforts were being made with a view to implementing the OEEC and GATT recommendations. The Federal Republic of Germany had been taking various measures to stabilize the domestic market for butter and efforts were being made to stabilize prices. Domestic consumption had been increasing in recent years and further increases were expected. Stocks had been reduced from 50,000 tons in 1960 to 40,000 tons in the spring of 1961. Domestic sales at lowered prices had been a major measure in eliminating difficulties. Imports of certain quantities of butter would be allowed during the second half of 1961.

During 1958 and at the beginning of 1961, South Africa had had a moderate surplus of butter for export to the United Kingdom. Steps are being taken to increase domestic consumption of butter and other dairy products. Butter was supplied domestically to public institutions at prices which were considerably below normal prices. France had followed the OEEC and GATT recommendations. Publicity had been made to increase domestic consumption of milk and milk products. A school programme for the distribution of milk had been reorganized. There was a strict legislative regulation on marking of margarine which was designed to give more incentive to increased butter consumption. The wholesale prices on the French market have been declining in recent years. With a view to disposing of as much surplus as possible in domestic markets, a decision was taken to make an effort to distribute butter surpluses in Algeria at low prices. France had been giving due regard to the recommendation which urged the reduction of existing subsidies, and was also refraining from the introduction of new subsidies. Similarly, the recommendation on quantitative import restrictions had been followed. France had been exporting normal quantities to the United Kingdom and it had been decided that French butter would not be sold on the London market at prices below those which New Zealand would fetch. The fat content of liquid milk had been increased in April 1960 and again in April 1961.

IV. General Findings

The consulting countries noted that almost all participating governments had taken some action with respect to the recommendations, particularly with regard to publicity programmes, school milk programmes
and other programmes and campaigns designed to encourage consumption. The consulting countries welcomed these steps and urged the governments to continue their endeavours in this direction. It was recognized, however, that the present scope of such programmes was not sufficient to bring about any improvement in the grave situation on the United Kingdom butter market.

Little action had been taken by consulting countries to reduce domestic butter prices which in most countries of Europe and North America were very high. It was evident that any increased exports from these countries to the United Kingdom necessitated a resort to subsidies.

The problem of marketing of butter in the United Kingdom became serious as of 1957, after which supplier on the United Kingdom market increased markedly. A statistical examination by the consulting countries of the origin of these excess supplies revealed that United Kingdom production during the period 1957-1961 increased substantially and thus contributed to the over-supply situation. Increased supplies were also attributable to increased imports from Ireland, Finland, Poland, Argentina and France, either for certain or all of the years concerned. It was stressed that reference to the years from 1957 was only by reason of the fact that the present acute situation on the United Kingdom butter market commenced as of that date.

The consulting countries in examining the possible reasons for the increase of exports to the United Kingdom market were aware that production or export subsidies existed on butter in most of these countries and through these subsidization measures the countries concerned were able to place excess supplies on the United Kingdom market during this period of difficulty. The consulting countries therefore concentrated their attention on production and export subsidies which appeared to be the core of the problem.

The consulting countries noted from the report of Committee II on Poland that Poland did not extend subsidies to butter. The representative of Argentina advised the consulting countries that exports of butter from Argentina were not subsidized.
The representative of Finland pointed out that thus far in 1961 Finland had considerably decreased exports of butter to the United Kingdom. The forecasted figure for 1961 and the figures for exports in recent years did not represent a large increase of exports but rather represented a change in the pattern of Finnish exports.

The Irish representative pointed out that the recent downward trend in prices commenced in 1960 after Irish exports had been low. He explained that the years prior to 1956 could not be considered as representative for butter exports in the case of Ireland. During those years agriculture generally was in a depressed state and the rapid rise in domestic per capita consumption prevented Ireland from participating in export markets.

The representative of France stated that French exports during 1959 had amounted to only 1,000 tons. Although exports increased to 4,000 tons in 1960, this figure represented a very small proportion of the increase in United Kingdom imports during that period. During the first two quarters of 1960, when the United Kingdom butter prices fell seriously, no French exports had taken place. The consulting countries noted, however, that imports from France during the first months of 1961 had increased substantially.