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
Italy
Kingdom of the Netherlands
New Zealand
Norway
South Africa
Switzerland
United Kingdom
United States of America
Sweden
Commission of the European Economic Community
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 the second quarter of 1961 exceeded supplies for corresponding periods in 1960. Similarly, stocks held in the United Kingdom during this period were higher than for the corresponding months in 1960. United Kingdom consumption, although increasing slightly in recent months, had not risen sufficiently to offset increasing stocks. The present situation in the United Kingdom market did not appear to justify 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, had not materialized. Nevertheless, the downward pressure on United Kingdom prices continued and these prices remained much lower than those in effect in all other importing countries. It was agreed that since the prices realized on the United Kingdom market were not regarded by even the most efficient producers as remunerative, the situation was unsatisfactory.

III. Causes of the Market Situation

3. The Group noted that the recent developments confirm the analysis of contributing factors which had been brought up in Section III of the 1st Report L/1453 of the Group.

IV. Review of action taken

4. 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 OEEC which aim at improving market conditions for dairy products. The consulting countries had recommended that the OEEC 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.
5. 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 their rate of exports. On its part, the United Kingdom had held discussions with several non-OEEC countries and had stressed the importance attached by the United Kingdom to efforts to carry out the recommendations. The Netherlands, regarding itself as a traditional marginal supplier, had, in pursuance to the recommendations, increased the amounts spent on publicity with a view to increasing consumption and the amounts spent on school milk programmes, had made available cold storage facilities at a special rate, used consumer subsidies, with a result that home consumption had doubled to 57,000 tons a year, had increased fat-content of milk, which results in a 10 per cent cut in butter production, had removed import restrictions and was guaranteeing only up to a maximum of 80 per cent of the losses on production 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. A system of compulsory returns of butter to milk producers and other measures have been introduced by Norway to increase domestic consumption. In 1961 Norwegian 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, the obligation on producers to bear a portion of the losses on exports had been made a statutory one; a Dairy Products Board has been established which will have as a principal function the task of diverting as much milk as possible from butter to other products; a lower ceiling was imposed on the volume of exports; the price of exported butter was raised and the full demand for it was not met. 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. Currently there were no stocks in government hands, though some commercial cold-storage stocks existed, as shown in MGT(61)14. The United States had made some effort towards a relaxation of restrictions on imports of dairy products and other fats and oils. A year ago certain cheese quotas had been enlarged; earlier this year import fees on certain vegetable oils had been renewed; and recently the Tariff Commission had instituted an investigation to determine whether the import quotas on blue-mold and cheddar cheese should be enlarged or eliminated.

Danish butter production in 1961 has been 3 per cent lower than in 1960. Domestic consumption has, at the same time, been 2 per cent higher than the preceding year. Danish exports to the United Kingdom have in the first half of 1961 been considerably lower than those in the corresponding period of 1960 and were expected to be at this lower level during the remainder of 1961. During 1959-60, Canada had exported at a loss about 13 million pounds of butter to the United Kingdom during 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 dried whole milk for donation purposes with a view to reducing butter production. In Belgium, exportable surpluses 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. Butter production was slightly decreasing.
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 fat content of liquid milk, cream, butter and other milk products had been increased, thus reducing domestic production of butter. Domestic guaranteed prices would apply only to farmers fulfilling a qualified repurchasing obligation of butter and cheese. More incentive was also 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 30 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 14,000 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 small supply of butter for export to the United Kingdom. Steps have been taken to increase domestic consumption of butter and other dairy products, of which a reduction in prices and a publicity campaign have been the most important. 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 recognized. 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 has 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 would be limiting its exports to the United Kingdom market and strengthening its control on sales in order to avoid underbidding in relation to the prices charged by important traditional exporters. The fat content of liquid milk had been increased in April 1960 and again in April 1961. Switzerland has introduced a system by which a certain amount of the producers' milk price was retained in order to finance progressively the losses occurred in the dairy sector. Other measures have been taken in order to reduce production or to increase consumption. Production had decreased since the autumn of 1960 and consumption of milk in any form has been increasing. Butter imports could take place and amounted to about 4,000 tons for the first half of 1961, which was about eleven times as much as had been imported during the whole year of 1960.

IV. General Findings

The consulting countries noted that almost all participating governments had taken or were taking action on the various matters contained in 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. Moreover little action had been taken by consulting countries to reduce domestic butter prices which in most countries were high. It was evident that given the present state of the United Kingdom market exports from such countries could only take place with some form of subsidy. Again, no
substantial progress had been made in the reduction of import restrictions. To the extent that these restrictions reduced opportunities for additional outlets of butter they contributed to the unsatisfactory character of trade in butter. As these restrictions were widespread the United Kingdom market remained the only large open market for butter.

In the light of this feeling, the group then discussed what additional steps or avenues should be explored. In this connexion reference was made by consulting Governments to the provisions of the General Agreement which might be relevant to certain aspects of the situation. The group first discussed the relevance of Article VI. They noted that Article VI imposed no obligation on contracting parties to impose anti-dumping or countervailing duties and that the imposition of such duties was the prerogative of particular contracting parties and not of the group or of the CONTRACTING PARTIES. They, therefore, concluded that it would not be appropriate to pursue the examination of the relevance of that Article while reaffirming the conclusion reached in the first report of the group that Article VI could be applied to certain aspects of the situation. It was, therefore, agreed to look at the extent to which Article XVI might be a useful approach to the problem. It was pointed out that Article XVI did not prohibit the use of export subsidies on primary products but that it contained provisions governing the extent to which such subsidies could be used to increase a country's share of the world export trade. Accordingly, the group felt that it would serve a useful purpose to look at the performance of countries exporting in particular to the United Kingdom market to ascertain what countries had increased their share of total trade in comparison with a previous representative period and then subsequently to look at whether the increased exports were attributable to subsidization.

The problem of marketing of butter in the United Kingdom became serious as of 1957, after which, apart from a temporary decrease in 1959, supplies on the United Kingdom market had again increased. A statistical examination by the consulting countries of the origin of these supplies revealed that United Kingdom production during the period 1957 to mid-1961 increased.