WORKING GROUP ON MARKETING OF BUTTER

The Director-General of the Food and Agriculture Organization has prepared a summary review of FAO's recent activities and current programme of work on butter and other dairy products. A copy of the Director-General's note is attached for information of members of the Working Group.
Summary Review
of
FAO's Recent Activities and Current Program of Work
on
BUTTER AND OTHER DAIRY PRODUCTS

Notes presented for the information of the GATT
Working Party on the Marketing of Butter,
January 1962

1. The Director-General of the Food and Agriculture Organization of the United Nations presents his compliments and has the honour to transmit herewith, for the information of the Executive Secretary of the GATT and Members of the GATT Working Party on the Marketing of Butter, at their forthcoming meeting to be held in Geneva 22 - 26 January 1962, a brief account of FAO's recent activities and current program of work on economic matters relating to Butter and other Dairy Products.

I. FAO/CCP Recommendations on Butter, June 1961

2. The FAO Committee on Commodity Problems (CCP), on considering at its Thirty-Fourth Session (June 1961) papers presented by the Director-General on "The Butter Situation 1960/61" (FAO document CCP 61/10) and "Assessment of the Extent of Adoption of Measures to Relieve the Butter Situation" (FAO document CCP 61/11), concluded:

(i) that "there were no signs of any basic improvement in either the supply or demand aspects", and that the "seriousness of the outlook for butter" was as described in document CCP 61/10;

(ii) that "the recommendations made by the Committee (CCP) at its Thirtyteth Session in 1958 to improve the butter situation were fully applicable to present conditions and should again be brought to the attention of governments";

(iii) that "the situation for butter was likely to remain serious and should, therefore, be reviewed again by the CCP at its next session (to be held in Rome in April/May 1962);"

(iv) and that a full-scale study be set under way by the Director-General of FAO on the longer-term aspects of "Means of Adjustment of Dairy Supply and Demand", and possibilities of future action.
II. Measures Proposed by FAO for Action by Governments

3. As noted in sub-clause (ii) of the preceding paragraph, the FAO Committee on Commodity Problems (CCP), at its June 1961 session, had asked the Director-General of FAO to draw again to the attention of governments the recommendations for action which had been made by the Committee in 1958 under the following main headings:

"A. Immediate Action for Immediate Effects

I. Increased Butter-fat consumption in Domestic Markets - for example by:

(i) lowering retail prices;

(ii) making butter competitive with other table fats;

(iii) increasing the butter-fat content of standardized liquid milk;

(iv) increasing the consumption of milk and milk products;

(v) extension of disposals through school feeding and welfare programs;

(vi) reduction in the water content of butter;

(vii) increased use of milk for animal feeding.

II. Improvement in International Trade

(i) opening up of protected markets;

(ii) reduction of export subventions;

(iii) when disposals of surpluses are contemplated, there should be adequate safeguards to the interests of other countries, including appropriate consultation procedures in accordance with the FAO principles and guiding lines of surplus disposal.

B. Immediate Action with Longer-Term Effects

(i) limitation of price guarantees to milk producers to a level and to methods which will discourage surplus production in order to avoid producers being insulated from the real state of the market;

(ii) sales promotion, here there is considerable scope for more common action by the dairy industry itself, for example along the lines of the establishment of an international promotional agency such as that for wool;

(iii) a re-assessment of the basis of payment of milk according to its components with particular reference to the relative values of fat and non-fat solids;
(iv) improvement of the quality of milk and milk products;
(v) limitation of dairy cow numbers by measures to control TB and Brucellosis;
(vi) measures to decrease the cost of milk production and distribution (such as the work of the European Productivity Agency of the OEEC on dairy efficiency);
(vii) stimulation of the liquid milk market;
(viii) in planning to meet future needs, countries should consider that expansion should be of a selective character, depending upon comparative advantage, foreign exchange positions, and similar considerations, notably the different world supply/demand position of individual products. In certain cases, it may be appropriate to resort to economic disincentives to production. 1/

4. The above-quoted measures, recommendations for action by governments, as first proposed by the FAO/CCP in 1958 and again at later sessions, particularly in June 1961, also coincided to a large extent with those made in 1958 by OEEC and developed further during a series of OEEC working parties and meetings on dairy products. The OEEC formulation of the proposals was generally accepted in the GATT Consultations on Butter held in Genova in April 1961, "as a guide for governments in defining their policies with respect to the marketing of butter". 2/


5. The FAO Committee on Commodity Problems (CCP) recognized that butter problems in the international market arise from a chronic disequilibrium between world supply and demand of dairy products, and that the basic causes of this disequilibrium were inherent in the structure of national dairy policies in the postwar period. The Committee, therefore, requested the Director-General, as a first step, to make a study of countries in which the dairy industry is in an advanced stage. The report, "National Dairy Policies in Advanced Countries", 3/ was issued two years ago and was approved by the CCP.

1/ FAO Committee on Commodity Problems, Report of the Thirtieth Session 1958 (FAO document CCP 58/18), paragraph 47.
The results of this study can be summarized as follows:

The continuation of policies to protect or raise dairy farmers' incomes, in conjunction with the technical advance of milk production will foster a more rapid growth of milk production than can be matched by the growth in world demand for dairy products. Without such assistance, milk production would not expand to such an extent. The demand for dairy products in advanced countries is limited, particularly by high consumer prices which hold back consumption and bear a considerable part of the cost of supporting producer income and lessen the direct costs to governments. A reduction of producer and consumer prices would lower the growth rate of production and expand consumption potentials and thus tend to equilibrate the dairy situation. However, adoption of such a procedure, or of other methods to discourage production, would encounter political, social and economic difficulties, in protecting dairy farmers with existing commitments to governments.

6. FAO's report on National Dairy Policies in Advanced Countries is being kept currently up-to-date by Annual Reviews outlining new developments country by country, of these policies. The third Annual Review will be issued for the consideration of the next session of the CCP in April/May 1962.

7. In addition, a special paper on the "Current Butter Situation" is also being presented to the CCP each year, at the Committee's request. Reports on the overall situation and outlook for dairy products are contained in the annual issues of the "FAO Commodity Review".

IV. Longer-Term Aspects — FAO Study on "Means of Adjustment of Dairy Supply and Demand"

8. In view of the outlook for a further widening of the gap between supply and demand of dairy products in the world, the CCP, in June 1961, also requested the Director-General to prepare a full-scale analytical study on the "Means of Adjustment of Dairy Supply and Demand" (see outline attached) as drawn up by the CCP.

9. The first stage of the study will take the form of a report of some fifty pages to be presented to the next session of the CCP. The report will include projections of milk production and the consumption of dairy products for 1965 and 1970. On present indications, the projections will show a massive world surplus, assuming that present trends continue. Other parts of the report will deal with the basic causes of disequilibrium, measures which have been actually adopted in various countries to help balance the world dairy economy, and how efficient and effective these have been.
analysis will be made of the possible effective demand for dairy products in developing countries in 1965 and 1970, and the extent to which they would commercially absorb the exportable supplies of dairy products from other countries. The possibilities of disposing of dairy products on concessional terms and by donations to developing countries will be examined. The last part of the report will deal with possible future countervailing actions to achieve an equilibrium.

10. On the basis of comments and suggestions of the Thirty-Fifth Session of the CGP in April 1962, and by national correspondents, this study will then be brought to a final phase.

... Attached is "Outline of a Study on the Means of Adjustment of Dairy Supply and Demand" (Appendix E, CCP 61/33, CL 35/17).
APPENDIX E

Outline of a Study on the
MEANS OF ADJUSTMENT OF DAIRY SUPPLY AND DEMAND

I. THE PROBLEM STATED

(1) Present and prospective extent of the disequilibrium in the world dairy economy (including projection to 1970 on world basis)

(2) Major causes of disequilibrium
   (a) economic (to be discussed within the context of national policies)
   (b) technical

II. SUMMARY REVIEW OF MEASURES ADOPTED OR PROPOSED

Measures and principles recommended by FAO and other international organizations, and any other measures adopted nationally.

III. ANALYTICAL REVIEW

Analysis of actual experience in various countries, to bring out particularly the effectiveness (in quantitative terms where possible) of various measures, reasons why they were chosen, and the problems encountered in their implementation. Account will be taken of both economic and technical factors and of the stage of development of the economy concerned.

(1) Measures mainly concerning production
(2) Measures mainly concerning consumption
(3) Measures mainly concerning international trade
(4) Measures which did not command support

SOME ASPECTS OF THE SPECIAL SITUATION OF DEVELOPING COUNTRIES

Consideration of problems arising from protein deficiencies in underdeveloped countries concurrent with dairy surpluses elsewhere

(1) Development of domestic dairy industry
(2) Trade questions, including supplies on concessional terms

V. POSSIBILITIES OF FUTURE ACTION

Effectiveness and feasibility of various alternatives