DRAFT REPORT OF THE WORKING GROUP ON
MARKETING OF BUTTER

I. INTRODUCTION

1. At the suggestion of New Zealand it was agreed at the nineteenth
session of the CONTRACTING PARTIES that a Working Group on Marketing of
Butter should be set up with the following terms of reference:

To review further the actions and plans of countries
principally concerned in applying measures designed to achieve
the removal of the basic causes of butter marketing problems,
particularly as such measures relate to internal policies
affecting production, consumption, domestic prices and imports
of butter.

The Working Group met from 22 to January 1962. The meeting
was presided over by Mr. E. Wyndham White, Executive Secretary.
Representatives of the following countries attended the meeting:

Argentina  France  Norway
Australia  Federal Republic of Germany  Poland
Austria  Ireland  South Africa
Belgium  Italy  Sweden
Canada  Netherlands  Switzerland
Denmark  New Zealand  United Kingdom
Finland

A representative of the Commission of the European Economic Community
also participated in the consultation and the Food and Agricultural
Organization of the United Nations and the Organization for Economic
Cooperation and Development were represented by observers.
II. THE MARKET SITUATION

2. The Group noted from the available statistics and the additional information supplied by delegates that production of milk and butter had been expanded in 1961 in practically all countries and it was expected that production would go on increasing. Consumption on the other hand was not keeping pace with the increase in production. In fact, consumption had remained relatively stable with slight increases in some countries and a distinct falling off in others. Stocks of butter, in a number of selected countries, which totalled up to 185,000 tons at the end of 1959 rose to 280,000 tons at the end of 1960 and amounted to 390,000 tons at the beginning of December 1961.

If these trends continued in future, present problems in international trade in butter were likely to become even more serious. Preliminary results of a study being prepared by the FAO confirmed that this trend would continue in future and the much more rapid growth of production over consumption would result in surpluses which could not be absorbed by the advanced and developing countries.

The Group concluded that it was confronted with an immediate and serious problem. The situation on the butter market was so unbalanced that any additional supplies would cause a disproportionate fall in prices and unless some positive action was taken, it was certain that these additional supplies would be available and that efforts would be made to market them.

III. REVIEW OF ACTION TAKEN

3. The Group examined the measures that had been taken or were contemplated by importing and exporting countries to bring about more orderly marketing arrangements, to restrain a further increase of milk production, to promote the consumption of butter in order to decrease existing high butter surpluses and to find new outlets for butter exports to markets other than the United Kingdom.
4. New Zealand. Dairy production in New Zealand over the last three years had been at a high level, but the expansion which had marked the post-war decade had halted. The existing guaranteed price system was in effect a self-balancing system; payments to producers were balanced with receipts from exports over a period. The guaranteed price for butterfat was reduced by about 11 per cent at the beginning of the 1958/59 season and remained at 32d. per pound, except for the year 1960 when a supplementary payment of 5d. per pound was paid out of the surplus in the Stabilization Fund. The present price was more than 15 per cent below the price for the period 1953/55. Due to this downward trend, there had been a marginal shift from dairy farming to the production of meat and wool.

New Zealand had followed a careful marketing policy and seized every opportunity to divert supplies of butter from the United Kingdom market.

New Zealand's consumption per capita of liquid milk and butter was the highest in the world: 45 gallons and 43 pounds per head respectively, which was a substantially higher level than in other countries. This was achieved through a deliberate policy of low domestic prices, milk-in-school programmes, and by a number of other means.

5. Australia. Dairying was the third largest industry in Australia. About 110,000 workers were employed in this industry and about 500,000 people were either directly or indirectly connected with it. The per capita consumption of butter in Australia ranged from 25 to 26 pounds per year, while the consumption of margarine was only 3-5 pounds per annum. Australia was a large producer of butter, but almost two-thirds of its total production was consumed within the country. The retail price of butter was low and there was little prospect that a further decrease would expand consumption appreciably. The consumption of liquid milk and milk products was encouraged by a school milk programme, by the introduction of cooking butter and by sales promotion.
6. Denmark. The butter industry was one of prime importance to Denmark and as a major exporter it suffered seriously from the disorganization of the market through increased sales of subsidized butter.

No system of guaranteed prices for milk and dairy products existed in Denmark. The Danish producers received the prices which were actually obtained in the domestic as well as in foreign markets. The production level of butter in Denmark remained stable during the past years as the low prices did not induce an expansion of production. The total exports of butter remained stable but a downward trend was noticeable in exports to the United Kingdom from 1960 to 1961.

7. Finland was basically an agricultural country and one-third of its total population was engaged in agriculture. Recently the Government had established a committee to review, examine and make recommendations on the agricultural sector of the country with particular reference to the production of milk and butter.

The butter industry was a natural industry in the country. It was estimated that with the industrialization which was under way, 1 or 2 per cent of the agricultural population would switch over to the industrial sector. This would have an effect on the production of milk and butter. Consumption on the other hand, would increase, due to a rise in population. The per capita butter consumption in Finland in 1961 reached the level of 17.1 kilogrammes per year, which was one of the highest in the world. In view of the existing high rate of consumption, it seemed impossible to increase it further. Finland had followed a cautious policy with regard to its exports to the United Kingdom butter market.
8. The Netherlands had undertaken action through widespread publicity campaigns to promote the consumption of milk and dairy products. Publicity campaigns were also started in order to develop new export markets. Consumption was further promoted through school milk programmes. The costs of these campaigns were met from contributions by the farmers, the dairy industry and the government. Home consumption of liquid milk was decreasing but more milk products were consumed. The consumption of cheese and butter was increasing. Butter consumption was encouraged especially by the sales of cold storage butter at reduced prices. Total butter consumption increased from 54,000 tons in 1960 to 59,000 tons in 1961. Production of butter had decreased. The increase of the fat content of liquid milk had led to a reduction of 10 per cent of the total butter output. The guaranteed price for producers was limited to a quantity of 5.1 million tons of milk.

9. Ireland. Irish dairy production was integrated with beef production and the possibility of accentuating the beef element was being contemplated. Producer prices for milk were low and had been increased only once since 1953. Good climatic conditions assisted the production of milk and butter and there seemed little scope to bring down production below the existing level. Butter consumption in Ireland was exceptionally high, as 70 per cent of its total butter production was consumed within the country and only 30 per cent was exported. In view of the high level of per capita consumption of butter, there were no possibilities of a further expansion.

10. Norway followed a policy of promoting consumption, and domestic marketing of butter and liquid milk had had a noticeable effect on the exports of Norwegian butter, in particular to the United Kingdom. The consumption of liquid milk in Norway was very high and milk was not standardized at a lower fat content. A new type of margarine, having a 20 per cent butter content had been introduced which had led to a further increase of butter consumption. Total milk production had been stable in the past year, while butter production decreased. Exports of butter had fallen substantially.
11. **Sweden.** Various actions had been taken by the Government to promote further consumption in the country. Prices of butter on the domestic market were decreased in 1958 and during the recent years an advertising campaign was launched. The price of margarine was deliberately kept high. An increase in milk production was discouraged by imposing a levy on concentrated feeding stuffs. This policy resulted in the disappearance of Swedish butter from the United Kingdom market in 1959. It reappeared in 1960 and 1961, but in the latter year these exports did not exceed 2,000 tons.

12. **Federal Republic of Germany.** The Government had initiated a stabilization programme relating to dairy products, in which both the interests of producers and consumers were taken into account. Consumption of butter on the whole had increased from 7.6 kgs. per capita in 1958 to 8.6 kgs. in 1961. Consumption was promoted by such measures as sales of cold store butter at reduced prices. Milk production was increasing with a consequential effect on the production of butter, but the Government tried to encourage milk consumption through school milk programmes and publicity. Imports in 1961 were estimated at about 31,000 tons. Imports of cheese had also increased.

13. **Italy.** In order to avoid a sudden disruption of the internal butter market from the importation of substantial quantities of butter which had been stored in anticipation of a re-opening of the Italian frontier for butter imports, the Italian Government had abolished the system of minimum prices and adopted a quota system since November 1961. This system was not designed for the purpose of affording domestic producers permanent protection and would be applied in a liberal way. Since the establishment of the system, quotas had been issued up to an amount of 13,000 tons. A publicity campaign had been launched in order to promote the consumption of dairy products. Butter consumption in Italy, however, had always been low and constituted no more than 8 per cent of total fat consumption.
14. **Belgium.** The Government had taken various measures to stabilize the market and to promote the consumption of milk and dairy products. These measures had resulted in an increase in liquid milk consumption from a total of 725 million litres in 1953 to 895 million litres in 1960, which increase was considerably more than the increase in the population. More milk had been used for the production of cheese and condensed milk, while the quantity of milk used for the production of butter was some 7 per cent lower in 1960 as compared with 1953. Butter production had increased somewhat in 1961. In order to reduce surplus butter stocks a publicity campaign had been started to promote consumption. Consumption of butter had traditionally been high, but the decrease in per capita consumption was mainly due to keen competition from margarine.

15. **Argentina.** Although trade in agricultural products was very important for the standard of living in rural areas, the Government of Argentina did not apply any special measures to influence the market. Existing co-operative organizations were functioning strictly on a private basis.

Sales of butter on the national and international market were effected without Government interference and without support for the losses which had occurred and which had been unavoidable in order to maintain a share in the market. Although the domestic price of butter was at present higher than the price obtained on the world market, these prices developed freely and this could not be considered as dumping. The consumption of butter on a per capita basis was very moderate, due to the consumer habits and it was not to be expected that a further lowering of the retail price would expand consumption in an appreciable way.

16. **Canada.** Production of milk in 1961 as compared with the previous year had increased by 6 per cent. Butter production had been considerably higher than the record output in 1958 and a further increase was expected
in 1962. On the other hand the per capita consumption showed a downward trend. These factors had led to a heavy increase in stocks which were considerably higher than in previous years. Canada had always handled stocks carefully and had held consultations with the interested countries when disposing of part of the stocks in 1959 and 1960. No exports of butter had taken place in 1961. Canada would try to dispose of the existing surplus of butter on the domestic market only. Butter was one of the products for which a price support system was in effect. Import restrictions on butter were maintained only to ensure a proper functioning of this system. Although dairy production was a relatively high cost industry, the return to producers was not unreasonably out of line with prices in many countries. Butter had been distributed in recent years to a number of institutions at reduced prices, but these measures had been discontinued when it was found that this did not lead to a reasonable increase of consumption.

17. South Africa. By a number of drastic reductions of prices paid for butterfat, dairy production in South Africa had been discouraged and many farmers had been induced to switch to other lines of production. The increase in milk production was mainly due to favourable weather conditions. South Africa had taken many measures to promote the consumption of milk and dairy products. Liquid milk was not standardized with a lower fat content. The retail price of butter for domestic consumption was lowered by a consumer subsidy. No subsidy was granted for exported butter. A special marketing section had been instituted to develop the market for butter. Besides this, a social welfare programme was established under which butter was made available at even further reduced prices. Nevertheless, due to the favourable weather conditions, South Africa now had a butter surplus of which only some small quantities had recently been exported. The per capita consumption of butter on an average of the total population was low, but this was due to the composition of the population.
18. Poland. Total butter production had amounted in 1961 to 175,000 tons, of which 27,000 tons was exported. These exports were of considerable importance in earning foreign currency. Poland had traditionally been an exporter of butter and it was only due to the very substantial war damage, from which it was now recovering after having rebuilt the cow population through the import of cattle, that Poland temporarily, had not been in a position to export. The Government had taken measures to increase the consumption of milk and cheese and it was to be expected that butter consumption would increase to six kilogrammes per capita per annum in 1965. There was no doubt, however, that Poland would remain exporting butter to the same extent.

19. Switzerland did not export butter. Import in 1961 had amounted to some 6,000 tons. Production of milk had been increasing due mainly to favourable weather conditions. By withholding a certain amount of the milk price, Switzerland endeavoured to discourage further increase in milk production. Greater quantities of milk were used for feeding purposes. Consumption was encouraged by advertising and publicity campaigns which showed favourable results especially for yoghurt, cream and cheese. The consumption of liquid milk on the other hand had been decreasing in 1961. The total production of butter was less in 1961 as compared with 1960 and amounted to 31,000 tons.

20. Austria could not be considered a marginal exporter of dairy products as exports were structural. A certain volume of dairy production was necessary to maintain a level of income of the agricultural population. Austria had been promoting the consumption of liquid milk by various school programmes. The butter surplus had been lowered through the increase of the fat content of milk from 3.2 to 3.6 per cent. Furthermore, the water content of butter had been decreased from 18 to 16 per cent. These measures had led to an appreciable reduction of the butter surplus since 1958. The exportable surplus of butter amounted in 1961 to 3,000 tons which had mainly been exported to markets other than the United Kingdom.
21. United States. Dairy production in the United States was part of the price support system. The support prices were slightly higher than in 1960. The quantity of milk and dairy products eligible for price support was not limited. The price support system for dairy products was presently under review by a special advisory group for dairy production and changes in the system were being contemplated. For 1962 the present support level would be maintained but only for a total quantity equal to the quantities marketed in 1961 and disposed of under the school and welfare programmes. The possibility was created for farmers to withdraw from dairy production by selling their marketing licences. Total stocks of butter at present amounted to more than 400 million lbs. at the end of 1961 of which 150 million lbs. were held by the Government. In 1961 a considerable amount of butter was distributed under special school and welfare programmes. The quantities of butter exported by the Commodity Credit Corporation did not amount to more than 2 million lbs. and these exports had not interfered with normal commercial trade.

IV. General Findings

22. In a review of measures taken by governments to counter problems which had arisen through the rapid increase in production of butter in many countries and the pressure of surpluses on the export market, the Group reaffirmed the soundness of the recommendations made by the Council of the OEEC in 1958 and 1960. These recommendations were reproduced in paragraph 11 of the report by the OEEC Committee of Deputies of the Ministers of Agriculture and Food at its thirty-third session in April 1961 and annexed to the first report on the consultation on the marketing of butter in the United Kingdom (L/1453).
The Group further endorsed the recommendations of the fourth report of the OEEC Ministerial Committee for Agriculture and Food and in particular those aiming at:

- continually encouraging the consumption of milk and dairy products;
- limiting guarantees to milk producers;
- encouraging farmers to shift from dairying to the production of other commodities for which market prospects may be better;
- limiting aids to export and relaxing import restrictions;
- seeking new outlets for surpluses by welfare distribution on the home market and abroad.

23. The Group was gratified to note that many governments had taken these recommendations into account in framing their policies and had made serious efforts to increase internal consumption or to withhold the export of subsidized butter and it was agreed that probably no country was in a position to fulfil all the recommendations simultaneously. On the other hand, it could be concluded that the supplies of subsidized or dumped butter on the international market had continued to be substantial.

It was pointed out that in the review of action taken, no reference had been made by any country to the recommendation addressed to exporting countries that no new subsidies should be granted for the export of butter and that existing subsidies should be cut. It was noted also that the recommendation addressed to importing countries to relax their import restrictions as early as possible with a view to the progressive improvement and restoration of the market had had virtually no effect. In fact, imports made to countries maintaining restrictions in recent periods had been required to meet immediate demand and no long-term relaxations had been reported.

24. The Group noted some cases in which non-traditional suppliers of butter to the United Kingdom market had avoided exporting to that country, while some traditional marginal butter suppliers had made efforts to find new outlets for their exportable surpluses and had thus succeeded in exporting only normal quantities to the United Kingdom market. The Group was appreciative of these efforts and for the endeavours made by the important traditional suppliers who had not exceeded the quantities normally exported to the United Kingdom market.
It was noted, however, that certain other countries had substantially increased their exports of butter to the United Kingdom in recent years. In practically all cases, these exports had taken place only through the help of substantial government aid and had contributed substantially to the difficult state of the United Kingdom market.

25. The Group took into account that in the last months of 1961 exports to the United Kingdom had practically all been governed by the arrangements concluded by the United Kingdom under which a restricted shipping programme had been instituted, but it was noted that some countries had expressed their disagreement with these arrangements. The Group noted that since the entry into effect of this programme the United Kingdom market had been strengthened somewhat through a rise in the level of wholesale prices. On the other hand, stocks had continued to increase to such an extent that it could be concluded that the present arrangement constituted only a temporary relief and in no way attributed to the solution of the longer term aspects of the butter marketing problem.

26. The Group concluded that notwithstanding serious efforts to dispose of surpluses of butter through the promotion of increased consumption, the disequilibrium between total supplies and expected demand continued to exist and that this situation created serious difficulties especially for the exporting countries. It was generally felt that more emphasis should be given to efforts to expand consumption especially in those countries where consumption was low despite standards of living being high and that further serious efforts should be made to restrain increases in production.