GENERAL AGREEMENT ON
TARIFFS AND TRADE

21 February 1969

Working Party on Dairy Products

EXPERT GROUP I (PRODUCT COVERAGE)

Report by Chairman of Group

1. Expert Group I was given the task to examine, in the light of the discussions that had already taken place in the Working Party and taking account by the proposal made by New Zealand, the problems relating to the product coverage of an arrangement on international trade in dairy products.

2. The Expert Group met on 18 and 19 February, and in accordance with its terms of reference examined the provisions under Article I (product coverage) of the New Zealand proposal, as well as those under paragraph 2 of Article II (adjustment of minimum prices) which were closely linked to the problems of product coverage and definition. The description of the terms of sale in the definitions of the pilot products in so far as they referred to the question of a f.o.b. or c.i.f. basis, were not discussed as this question was under consideration in Expert Group II.

3. The Group agreed on the definition of butter as a pilot product. In the agreed definition the fat content would be specified by a single percentage - 82 per cent - rather than a range. The specifications for packaging were also agreed upon. It was agreed that the words "prompt payment against documents" be retained in the specifications in regard of terms of sale.

4. The Group also agreed on the definition of so-called "near-butters" as a pilot product, referred to in the New Zealand proposal as product type A(2) milk fat, butterfat, butter oil (anhydrous); as well as on the definition of skimmed milk-powder as a pilot product. The agreed definitions cover the aspects of fat content, packaging and terms of sale.

5. The Group examined the question whether in the case of skimmed milk-powder provision should be made in the arrangement for a single pilot product or for two pilot products, and for a corresponding number of minimum prices. In this connexion
the Group examined the technical possibilities and practicability of distinguishing between skimmed milk-powder sold for human consumption and that sold for other purposes. A proposal was made to the Group for a two-price (or possibly multi-price) system based on a differentiation according to whether the skim milk-powder was traded in its natural state or in denatured form, with particular provisions applying to skimmed milk-powder in its natural form in cases where government regulations in particular countries would provide sufficient guarantee that it would not be used for human consumption.

6. The Group was unable, at the present stage, to come to a firm conclusion as to the number of pilot products for skimmed milk-powder. However, a number of members of the Group favoured a single product description, and expressed reservations on various aspects involved in a system based on more than a single pilot product. Some other members preferred a system based on two pilot products and a dual or multiple pricing system. One member expressed the view that skimmed milk-powder for animal feeding should be excluded from an arrangement. There was a general recognition in the Group that the final decision on the system to be applied to skimmed milk-powder would depend on other factors in the negotiation which were outside the scope of the Expert Group, such as, notably, the levels at which the minimum price or prices would be set and any particular provisions such as derogations that might ultimately be made in the arrangement.

7. The Group agreed on a provisional basis on the adjustments of the minimum prices to be made to products which differ from the pilot products as regards fat content or packaging. For butter, it was agreed to decrease the minimum price by x US cents for each full 1 per cent decrease in the fat content below 82 per cent and to increase the minimum price for each full 1 per cent increase in the fat content in excess of 82 per cent. The figure of x US cents would be calculated by dividing the minimum price which would ultimately be agreed upon, by 82, i.e. the percentage fat content of the pilot product for butter. It was understood that the adjustment would become operative for butter with a fat content just below 81 per cent and just above 83 per cent.

8. For near-butter, containing less than 99.3 per cent butterfat and more than 45 per cent by weight, the minimum price would be decreased by x US cents for each full 1 per cent decrease in fat content below 99.3 per cent, the amount of x US cents
being the same as in respect of adjustments for butter. In the case of skimmed milk-powder, an amount of $y$ US cents would be added to the minimum price for each 0.1 per cent increase in the fat content over 1.5 per cent. The amount of $y$ US cents would be one tenth of the amount of $x$ US cents applicable in respect of adjustments to the minimum prices of butter and near butters.

9. A proposal was made by a member regarding adjustments to minimum prices. This member proposed that for butter and products containing not less than 45 per cent by weight of butterfat the minimum price be decreased by $x$ US cents for each full 1 per cent decrease in the fat content below 82 per cent; and that for skimmed milk-powder the minimum price be increased by $y$ US cents for each 0.1 per cent increase in the fat content above 1.5 per cent. The amounts $x$ and $y$ are the same as those referred to earlier. It was agreed to set this proposal aside, but there was consensus in the Group that it might be reverted to at a later stage of the negotiations.

10. The Group addressed itself to the question of product coverage of the proposed arrangement. One member expressed the view that a definition of the coverage in terms of item 04.03 of the Brussels Tariff Nomenclature was too narrow, and suggested that specific provisions should be made so as to bring mixtures containing butter or butterfats within the scope of the arrangement.

11. The Group felt that as regards the general question of the products to be covered by the proposed arrangement, it could not take a useful decision at the present stage. The final decision on this issue would have to be taken in the light of other factors of the negotiations outside the scope of the Group, including the levels at which minimum prices would be set, which among others, would also have a bearing on the aspect of the competitiveness of butterfats with other fats and oils.