1. On 15 May and on 30 June 1970, the Working Party met as an Expert Group to pursue its work on dairy products not covered by the existing Arrangement Concerning Certain Dairy Products.

2. A proposal was made that, as a next step, the work of the Group should concentrate on anhydrous milk fat. The reasons given were that trade in this commodity was growing and becoming more important; that anhydrous milk fat was a commodity with characteristics of its own, which were nearer those of skimmed milk powder than those of butter; that there were fewer countries engaged in this trade than in the butter trade; and that the trade pattern was similar to that of skimmed milk powder, in particular as the two commodities were both used for purposes of recombining.

3. The members of the Group agreed to pursue the approach outlined by the proposal, including those members who pointed out that their exports of this commodity were only small, and those who doubted whether it could be dealt with separately from butter. Several members expressed the hope that other, additional, products would eventually be covered by an arrangement.

4. The discussion addressed itself to a number of problems of a technical nature. The Group invited members to supply certain data on production, trade and prices to help it in its work. The data received have been issued in document Spec(70)72 and Addenda 1 and 2.

5. At its meeting on 30 June, the Group of Experts examined the information contained in document Spec(70)72 and Addenda 1 and 2. Among the conclusions emerging from the examination were the following: exports of anhydrous milk fat by member countries of the Group in 1969 totalled slightly above 52,000 tons; at currently prevailing prices this quantity represented a total value of between US$25 million and US$30 million. For 1969, two major exporters reported average prices of US$520 per ton f.o.b. while actual sales may have taken place at prices substantially below that level, at around US$420 per ton. Three major exporters accounted for more than 90 per cent of total trade. For all three, South East Asia and the Caribbean and Central America represented major outlets, while only one of these exporters had made substantial sales to markets in Europe and North Africa. Among a range of products traded as "near butters", products with a fat content above 98.5 per cent constituted the bulk of the trade. Major end-uses of these products were for the recombination of dairy products in developing countries, and for miscellaneous food manufactures in developed countries.
6. Some members considered that in view of the relatively small size of the trade and its high concentration as regards exporters and import markets, a solution to its problems should be found quickly so as to enable work towards solutions for other important products to be embarked upon. Some of these members at the same time pointed to the strong upward trend in the quantities of anhydrous milk fat traded and urged that future developments in this trade be borne in mind.

7. Some members raised the question of links between the existence of recombining plants in certain countries and trade in anhydrous milk fat. According to their information, most recombining plants had particular arrangements with the bodies or countries that had established or financed them, or had provided the technical know-how. They stated that the arrangements sometimes included long-term contracts of ten to fifteen years' duration for the purchase of raw materials. Under such circumstances price played only a secondary rôle in competition among suppliers of anhydrous milk fat, some of whom thus enjoyed preferential access. Other members said that there were no contractual relationships of the kind referred to between their dairy industries and recombining plants in developing countries, and that their dairy industries had to compete with other suppliers.

8. A member pointed out that in addition to the problems arising from the situation in the international dairy market, a particular trade problem derived from the competition between recombined products and finished condensary products, especially when these were made directly from whole milk or from other raw materials not subject to minimum prices. He recalled that he had raised this point in connexion with skimmed milk powder when the Arrangement on Certain Dairy Products was discussed (L/3295, paragraph 3).

9. A member said that in his, a developed, country the main use of anhydrous milk fat was for the manufacture of biscuits and confectionery. Purchases were determined by price, as users could switch to other products such as cream, butter, or vegetable fats. He considered that any scheme to be applied to anhydrous milk fats must therefore take account of the possible effects on demand.

10. A member suggested the following draft text to cover anhydrous milk fat. He considered that if this text were acceptable most of the text of the existing Arrangement would be applicable:

**Pilot product**

This arrangement applies to all types of anhydrous milk fat (also known commercially as anhydrous butter fat, butter oil, ghee and the like).

For the purpose of this arrangement a minimum export price shall be established for the pilot product of the following description:

Fat content: not less than 99.3 per cent by weight.
Packaging: in containers normally used in the trade of net content by weight of not less than 20 kgs.

Terms of sale: f.o.b. from the exporting country, or for a land-locked country f.o.b. from one maritime port of its choice to be designated at the time it signifies acceptance: or free at frontier exporting country. Prompt payment against documents.

**Adjustment of minimum prices**

If the product actually exported differs from the pilot product type with regard to packaging or terms of sale or is a product incorporating the pilot product, the minimum price shall be adjusted so as to protect the minimum price established in the arrangement according to the following provisions.

Products incorporating the pilot product: for a product incorporating the pilot product and containing less than 99.3 per cent milk fat by weight the minimum price shall apply to the proportion of the product that comprises anhydrous milk fat with due account being taken of the prevailing world prices of other constituents and of associated processing costs.

Packaging: as in present Article III, paragraph 4 of the Arrangement.

Terms of sale: as in present Article III, paragraph 4 of the Arrangement.

11. Explaining his proposal, this member said that it was not intended to disadvantage some countries against others. While he favoured a minimum price based on f.o.b., he recognized that thought might need to be given to possible departures from that basis, perhaps in the form of derogations, in order to allow exporters who had established or financed recombining plants to continue to supply them with raw materials. Such departures should however be only temporary, as one should not proceed on the assumption that the investing country should have preferential access for ever; after some time, commercial considerations must apply.

12. Some members expressed support for a minimum price approach as outlined. Some other members, however, felt that such an approach dealt with only one aspect of the much wider-ranging problems of trade in anhydrous milk fat.

13. As regards the definition of the pilot product, some members observed that it differed from that applied by their own customs authorities, as well as from the Codex Alimentarius Standard for anhydrous milk fat.

14. As regards the adjustment of minimum prices in respect of products incorporating the pilot product, some members considered that any arrangement should in the first instance concentrate on the products where the problems are most acute, and that such an arrangement should therefore cover only those mixtures which contained a substantial proportion of the pilot product. The question was asked whether the
provisions for adjustment when applied to mixtures containing around 84 per cent of butterfat would not thereby also cover butter itself. The member making the proposal explained that the adjustments were meant to apply to mixtures of anhydrous butterfat with other products such as sugar, and gave an assurance that there was no intention of using the adjustment provisions to bring either butter or mixtures that contained a low percentage of the pilot product into the ambit of an arrangement on anhydrous butterfat.

15. Some members doubted that a minimum price could be set for anhydrous milk fat without thereby affecting the price of butter, and also considered that anhydrous milk fat might become uncompetitive with butter if the price of the latter were left to move freely. Other members commented that this would depend on the level at which the price for anhydrous milk fat were set, and on prevailing market conditions. They pointed out that at present, with prices of both products moving freely, anhydrous milk fats were being traded at prices substantially above those of butter, and that the aim of the proposal was to increase the existing differential by raising the price of anhydrous butterfat to a level which would more closely reflect production costs, but which would not be so high as to have adverse effects on the market. One member remarked that although his country had little direct trade interest in butter oil, it had an interest as to the price at which it was traded because of its interrelationship with other products; he therefore favoured the highest price reasonably possible.

16. Some members raised the question of the possible geographical coverage of the proposed arrangement. They drew attention to the existence of an import quota system on anhydrous milk fat in a major market and asked whether the inclusion of this market in an arrangement would lead to the dismantling of the quota system. The member who put forward the proposal said that the intention was not to exclude that market from an arrangement on anhydrous milk fat. The member representing the market in question explained that the reason why import quotas on anhydrous milk fat were introduced was that within the space of one year imports had risen fifteen fold and had threatened the operation of the butter quota system and the interests of outside suppliers. He said that a quantitative import system was not necessarily the only system for maintaining stability in a market and that he would not rule out any possible changes on principle. His authorities were open-minded as regards an arrangement and ready to consider any proposal.

17. Some members expressed the hope that the technical stage of the work would soon be concluded to enable discussions to proceed to the area of policy decisions.

18. The Group agreed that the date of its next meeting should be fixed by the Chairman of the Working Party in consultation with delegations.