Introduction

1. The Working Party on Dairy Products met at expert level on 19 and 20 October 1971 in order to continue its work in regard of anhydrous milk fats.

2. The Group had before it a questionnaire established by the secretariat with the assistance of the delegations principally concerned, as well as the replies received from fourteen members of the Working Party or participants to the Arrangement Concerning Certain Dairy Products (Spec(71)77 and Addenda).

3. The Group discussed the technical points on the basis of the replies to the questionnaire, under the following headings and sub-headings:

   I. Definition of product ("pilot product")
      (a) physical composition
      (b) packaging
      (c) terms of sale.

   II. Questions relating to the establishment of a minimum price level
      (a) possibilities of substitution by vegetable fats and oils or animal fats other than butter
      (b) possibilities of substitution by butter
      (c) possible levels of a minimum price for anhydrous milk fats.
III. Adjustment of a minimum price if the product exported differed from the pilot product with regard to
(a) physical composition
(b) packaging
(c) terms of sale

IV. Possible form of an arrangement on anhydrous milk fats in relation to the existing Arrangement on Certain Dairy Products.

4. These discussions were of an exploratory nature.

Definition of product

5. Physical composition. The Group agreed that the description as to the composition of the pilot product could read: "Fat content: not less than 99.3 per cent by weight". It also agreed that the description need not specify maximum water content.

6. Most members felt that ghee should be covered by an arrangement on anhydrous milk fats.

7. Packaging. The Group agreed that the description as to packaging of the pilot product could read: "Packaging: in packages normally used in the trade of a net content by weight of not less than 25 kgs. or 50 lb., as appropriate".

8. Terms of sale. The Group expressed the view that, in spite of the fact that in many cases trade was usually carried out on a c.i.f. basis, the minimum price could be based on f.o.b. for reasons of simplicity in the enforcement of price discipline. It was pointed out that the choice of f.o.b. basis involved also other than merely technical considerations, and that the question of the acceptance of an f.o.b. basis might need to be reviewed in the light of subsequent negotiations.

Questions relating to the establishment of a minimum price level

9. Substitution by vegetable oils and fats. Members considered that there was a definite possibility that vegetable fats and oils could be substituted for anhydrous milk fats; such substitution had, in fact, already taken place in certain
instances, particularly for use in recombining. It was pointed out that, as by appropriate processing virtually any fat or oil could replace anhydrous milk fats for various uses, the extent of substitution would mainly depend on price relationships. There were, however, also other factors, such as import régimes, labelling regulations regarding non-dairy fats used in reconstituted products, and consumer acceptance.

10. The question of substitution in the opposite direction, i.e. of anhydrous milk fats taking the place of vegetable oils, was also raised. A member pointed out, however, that the risk of this was small.

11. There was consensus in the Group that, in fixing the minimum price of anhydrous milk fats, the possibilities of substitution by vegetable fats and oils were a factor that needed to be borne in mind.

12. Substitution by butter. The risk of a butter oil arrangement being undermined by low-priced butter exports, should the dairy market ever revert to the situation of the late sixties, was discussed. The Group noted that, taking only the butterfat content as a basis, an appropriate price relationship between butter and butter oil might appear to be 1:1.2. But other factors, such as higher freight costs for butter, higher customs duties, and conversion costs, had to be taken into account. Furthermore, the importance of these various factors differed from market to market.

13. However, the Group agreed that the threat of such substitution was not of the same order as that by vegetable oils. While it was true that one could envisage some possibilities of substitution in the longer term, a prudent choice of the level of the price and of length of duration of an arrangement on butter oil would lessen or eliminate this type of problem. The Group agreed that an arrangement should provide for emergency action in cases such as a threatened disruption of the anhydrous milk fat market by low-priced butter sales.
14. Possible levels of a minimum price for anhydrous milk fats. A member stated that for reasons he had explained earlier relating to the costs of the two main raw materials used for recombining - skim milk powder and anhydrous milk fat - his authorities must look at the prices of the two products together. A price of above $70 per 100 kgs. f.o.b. for anhydrous milk fat would create problems. He added that, in his view, the minimum price should be a floor price and not a support price.

15. Another member considered that the Arrangement was an interim device to eliminate the effects of price cutting, and that the minimum price should provide a floor representing remunerative returns to producers and allow a development of markets. The competition from vegetable fats was very relevant, and he therefore suggested a price of around $80 per 100 kgs. f.o.b.

16. Another member, while unable to suggest a figure, agreed that caution was needed in view of possible competition from vegetable oils. The two aims in setting the price should be not to add to the disequilibrium between different products such as had existed until recently, and to provide an adequate remuneration to producers.

17. Another member stated that the minimum price should take account of the current price of butter, and should therefore be set higher than the prices just suggested.

18. Another member pointed to the large drop in butter consumption in his country as a result of the rise in price. In his view it would be wrong to set the price of butter oil too high and risk a sharp cut in sales.

19. One member said that his government agreed in general with the objectives of the proposed arrangement, and appreciated fully that the arrangement might promote stability in the world dairy market and, hopefully, help to eliminate or reduce the use of export subsidies and dumping. This member said that the current high world market prices encourage production that might create a difficult
surplus situation similar to that of the late sixties. His delegation, which had important interests in other fats and oils, was concerned that subsidized prices or sharply lower prices for butterfat might disrupt trade in other commodities. However, since his government did not feel that it had contributed to the disruption of world dairy markets, it did not intend to participate in the proposed arrangement. It did, however, plan to participate as an observer as in the case of the skimmed milk powder arrangement.

**Adjustment of minimum price**

20. The Group agreed that provision should be made for adjustment of the minimum price when the packaging or terms of sale of the product differed from that of the pilot product.

21. The Group further agreed that there was no need to provide for adjustment of the minimum price for where the product exported differs from the pilot product in respect of fat content.

22. It was also agreed that the provisions contained in Article III, paragraph 1 of the existing Arrangement, which deals with cases where the product is exported in the form of goods in which it has been incorporated, should be maintained in an arrangement on butter oil.

**Possible form of an arrangement**

23. It was pointed out that it would appear appropriate to incorporate an arrangement on butter oil into the existing Arrangement on Certain Dairy Products; there were, however, certain problems. These related to the possibility that the participation might differ between the two, and to the fact that certain provisions of the Arrangement would not apply to butter oil.

24. The Group agreed that the wording of the existing Arrangement should not be modified for this purpose.
25. The consensus of the Group was that it might be possible to envisage an arrangement on butter oil being incorporated into the existing Arrangement by means of an additional protocol, so as to constitute Part VI of the Arrangement. The new Part VI should be self-contained in the sense that it would restate textually or by reference to particular Articles of the existing Arrangement, all the provisions that would apply to butter oil. It was suggested that both the secretariat and individual delegations might examine the question before the next meeting of the Working Party.

Other matters

26. The Chairman proposed that the Working Party on Dairy Products should be convened before the end of the year for the purpose of negotiating the text of an arrangement on anhydrous milk fats. The Group noted this proposal, which they would transmit to their authorities.