COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

Communication from the New Zealand Permanent Mission

The following communication dated 21 July 1986, has been received from the New Zealand Permanent Mission, with the request that it be circulated to members of the International Dairy Arrangement.

NEW ZEALAND DAIRY BOARD SURPLUS DISPOSAL SCHEME

The proposal for establishment of a joint venture to dispose of surplus butter stocks was drawn up by the New Zealand Dairy Board in response to the crisis facing international markets. The international butter market is of limited size and unable to absorb the stocks now held by major suppliers. The resultant fall in butter prices and pressures on the GATT minimum prices cannot be reversed while such massive surpluses continue to overhang the market.

A co-operative effort to dispose of unsold butter stocks from previous years would allow for significant strengthening of international dairy product prices. The proposal has therefore been made that a joint venture be established along the following lines to achieve this objective.

- A limited life joint venture company would be formed involving (at least) the European Community, Australia and New Zealand, although the venture would of course remain open to other interested parties.

- Participants would commit an agreed quantity of old butter to the venture. In addition, participating countries would make a commitment to continue efforts to reduce surplus production and prevent stockpiles from being re-built.

- The joint venture company would handle the shared disposal of aged butter by converting it to butteroil. The agreed quantity of butter would be completely quarantined from the normal
international market. In other words, it would be retained in existing stores, but committed for sale as AMF to industrial uses, vegetable oil or animal feed markets, with strict control to prevent entry into commercial butter or butteroil markets. Conversion to butteroil would take place as sales were contracted. The original committed quantities would be sold within a set period provided the returns were greater than the cost of destruction. A decision about the fate of any unsold joint venture stocks would be made by participants at the end of the life of the joint venture, but in any case, there would be no possibility for these to re-enter the normal butter or butteroil markets.

- The annual tonnages involved would represent a minor percentage of the total vegetable oils or animal feeds markets and would not therefore be disruptive.

- This proposal would need the sanction of the GATT IDA Council and a special derogation would need to be agreed replacing the components of the existing derogation that refer to milk fat to allow sales by the venture to proceed.

- An essential element of the proposal is the achievement of an improvement in the international market prices for butter and other dairy products, since present prices are well below the cost of production of any participant in the GATT Agreement.

The proposal has been advanced on an informal basis for the consideration and comments of IDA participants. It should be stressed that this is only one possible solution to the serious crisis which threatens the international dairy market. Suggested refinements to this proposal, or alternative suggestions from participants would be welcomed by New Zealand. Our aim has been to emphasize the urgency for seeking a viable solution in order to relieve market pressure and in consequence to strengthen the International Dairy Arrangement.