

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## International Dairy Arrangement

### COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

#### Twenty-First Session

#### Draft Report

#### Introduction

1. The Committee of the Protocol Regarding Milk Fat held its twenty-first session on 25 March 1985.

#### Adoption of the Agenda

2. The Committee adopted the following agenda:
  1. Election of the Chairman and Vice-Chairman
  2. Adoption of report on the twentieth session
  3. Information required by the Committee
    - (a) Replies to questionnaire 2
    - (b) Summary tables
    - (c) Other information
  4. Review of the market situation for products covered by the Protocol
  5. Other business

#### Election of the Chairman and Vice-Chairman

3. The Committee elected Mr. G.A. Stünzi (Switzerland) as the Chairman of the Committee; no Vice-Chairman was elected.

Adoption of report on the twentieth Session

4. The Committee adopted the report on its twentieth Session. The report will be distributed as DPC/F/33.

Information required by the Committee

(a) Replies to questionnaire 2

5. The Committee reviewed the replies to Questionnaire 2 and requested members who had not yet communicated such information in respect of the fourth quarter of 1984 to do so without delay. Information concerning the first quarter of 1985 was requested at the latest by 15 June 1985.

(b) Summary tables

6. The Committee had before it a document containing revised summary tables (DPC/F/W/1/Rev.22) prepared under Rule 28 of the Rules of Procedure, and covering the information furnished in Tables A and B of Questionnaire 2 regarding anhydrous milk fat and butter. The Committee took note of document DPC/F/W/1/Rev.22.

(c) Other information

7. No other information was requested.

Review of the market situation for products covered by the Protocol

8. The representative of Switzerland informed that butter production in the first quarter of 1985 had totalled 8,300 tons, which was more or less at the same level as in the corresponding period of last year. Imports of butter during this period were 1,700 tons. Consumption levels remained stable and prices remained unchanged. Forecasts suggested that due to a limitation on cheese production, which was dependent on the quantities of milk delivered, production of butter was likely to increase.

9. The representative of Sweden indicated that production of butter in his country had increased by 3,000 tons during 1984, while consumption had increased by 1,000 tons. Consumption of "Bregott", which contained 80 per cent of butter and 20 per cent of vegetable oils had, however, increased by 1,700 tons. The imports of butter in 1984 remained at the same level as in 1983, while exports were up by 900 tons. Estimates for 1985 showed that production would aggregate 45,000 tons, which was about 3,000 tons less than in 1984. Average export prices were around US\$ 1100 per ton, except for exports of about 700 tons of butter to Morocco at US\$ 1,050 which was slightly below the minimum price.

10. The delegate of Norway mentioned that butter production in 1984 was estimated at 25,341 tons, which was 5 per cent below the level of production in 1983. At the end of December 1984, butter stocks were 4,225 tons, i.e., 38 per cent higher than their level in 1983. She estimated that exports in the first three months of 1985 would be less than 150 tons, while export prices would range between US\$ 1,000 and \$ 1,300 per ton.

11. The representative of Finland estimated that butter production during 1984 was about 80 million kilograms, i.e., 5 per cent less than the level in 1983. Consumption also dropped by 3 per cent to 57 million kilograms in 1984. The drop in the exports of butter was, however, more significant from 26.6 million kilograms to 20.0 million kilograms in 1984. The end-year stocks were estimated at 11.8 million kilograms. The forecasts for 1985 showed that while production of butter would approximate 77-78 million kilograms, consumption would remain stable at 56 million kilograms, leaving an excess of 21-22 million kilograms of butter. He indicated that average export prices ranged between US\$ 1,352 and US\$ 1,585 per ton, and for the last quarter were on average US\$ 1,353 per ton and not US\$ 1,336 as reported earlier.

12. The representative of South Africa said that butter consumption, after decreasing in 1982, had increased in 1983 again to decrease in 1984 by about 6 per cent. Production also went down by about 10 per cent, which is illustrative of the fact that production was by and large

geared to anticipated levels of consumption. In regard to the outlook for the future, he indicated that both production and consumption of butter were expected to remain at seasonally high levels during the first quarter of 1985. Stocks were also expected to be at a relatively high level of 5,632 tons by the end of March.

13. The representative of Poland indicated that as a result of an increase in milk production the output of butter showed an increase of 10 per cent, from 260,000 tons in 1983 to 289,000 tons in 1984. Per capita consumption of butter, however, remained stable at 8.3 kilograms. This led to a slight increase in stocks, which at the end of 1984 aggregated at 38,568 tons. Deliberate measures were being taken to build up stocks in order to soften the impact of restrictive measures relating to distribution and sales of butter. Exports of butter in 1984 amounted to 4,000 tons, while imports added up to 5,000 tons.

14. The representative of New Zealand reported that due to excellent weather conditions and abundance of grass butter production was 1.5 per cent higher in 1984/85 than in 1983/84 season. Production of butter in the last quarter of 1984 added up to 109,000 tons, which was slightly below the level of 111,000 tons in the corresponding period of the previous year. Stocks of butter aggregated at 62,000 tons at the beginning of the last quarter of 1984 to rise to 91,000 tons towards the end of December 1984. In regard to the production of anhydrous milk fat he indicated that the output in the last quarter of 1984 at 1,300 tons was higher than its level in the final quarter of 1983. Exports of butter in the last quarter of 1984 amounted to 43,200 tons, as compared to 57,000 tons in the corresponding period of the previous year. In regard to the f.o.b. export prices of butter and anhydrous milk fat, he wished to inform the Committee that serious errors and anomalies had been found in the statistics supplied earlier which were being currently investigated. It had been, for example, reported that sales of 4,502 tons of butter to Algeria had been made at US\$ 1,129 per ton f.o.b. The fact of the matter was that shipments of butter in October 1984 were made pursuant to the contracts entered into in the first half of 1984

with the contract price for a significant portion of the butter fixed in Swiss Francs. The value of the Swiss Francs in the intervening period had declined by about 20 per cent, from US\$ 1 = SF 2.2 to around US\$ 1 = SF. 2.6, thus conveying the impression that sales had been made apparently at less than the minimum prices. Similarly, the value of anhydrous milk fat (AMF) exports to Iran, Iraq and Mexico had been seriously under-stated. Exports of 2,000 tons of AMF to Mexico showed f.o.b. unit value of US\$ 1,600 per ton; but in reality sales to Mexico were made at a much higher figure. Sales to Iran of 937 tons of AMF had been made at above the minimum price of US\$ 1,440 but the figures showed a range of f.o.b. US\$ 1,218 to \$ 1,430 per ton. He explained that the inconsistencies in terms of unit f.o.b. values arose either from the variations in exchange rates due to lags between the time sales contracts and prices were fixed and the actual export shipments were effected and recorded by the New Zealand Board of Statistics, or the fact that New Zealand exports were recorded in New Zealand dollar values but were subsequently averaged for the whole quarter irrespective of the actual exchange rate variations during the quarter. He, however, assured that efforts were being made to rectify the mistakes and to provide accurate statistics in future. In reply to a question by the representative of the EEC, he said that concerted efforts were being made to provide all figures on a calendar year basis in order to facilitate comparability of data. Contrary to what was being alleged there was no cover-up on the part of his country in providing figures on a seasonal basis (July-June); it was merely a reflection of New Zealand Dairy Board's existing statistical procedures. On a calendar year basis, production of butter in 1984 was 265,900 tons as against 238,000 tons in 1983; and production of anhydrous milk fat was 31,200 tons in 1984 as against 22,500 tons in 1983.

15. The representative of Japan indicated that domestic production of butter fell by 14 per cent in the hot period of summer, especially in the month of August, but recovered again in the following month and the net increase in the first quarter of the fiscal year 1984-85 was about 4 per cent as compared to the level in the corresponding period of the previous year. In respect of prices he observed that they were generally weaker due to some stagnation in demand for butter.

16. The representative of Hungary noted that domestic production of butter in the previous year had remained unchanged at a level of 31,600 tons. Domestic consumption of butter had moved up from 27,800 tons to 29,500 tons, while exports decreased sharply from 11,400 tons in 1983 to 5,500 tons in 1984. As to export prices he indicated that an average of US\$ 1,224 per ton/franco hungarian border was obtained.

17. The representative of Australia said that production of butter in 1984 at 88,400 tons was marginally down on previous year's production of 93,000 tons. Exports, however, showed a substantial increase from 8,300 tons in 1983 to 22,300 tons in 1984, and consumption increased from 60,700 tons to 77,600 tons during the same period. In view of the fairly regulated marketing arrangements, the prices remained stable at US\$1,265 for butter in bulk and US\$ 1,415 for butter in small packs. The production of anhydrous milk fat rose from 11,000 tons in 1983 to 20,500 tons in 1984, while its exports rose from 5,800 tons to 11,200 tons during the same period. Domestic consumption of AMF was slightly higher, from 6,000 tons in 1983 to 8,200 tons in 1984. Prices of Ghee (2 kg tins) averaged US\$1,611 per ton, while prices of butter oil were around US\$1,470 per ton. Estimates of butter production in the July-December period showed a slight increase of 3,000 tons to a level of 114,000 tons compared to the level in 1983/84 season. International market pressures for other products persisted in such a way that changes in total milk production were immediately reflected in changes in the production of butter oil and skimmed milk powder. Thus, the slight increase that took place in milk production in the July-December period led to an increase of 2.4 per cent in butter/butter oil production. In response to both stable prices and promotional activity domestic consumption of table butter was currently 5 per cent higher on the previous season's levels. However, total domestic consumption of butter/butter oil in 1984/85 was expected to be 60,000 tons, which was marginally below last season's total consumption of 60,389 tons. This marginal decline was attributable to a reduction in industrial butter sales resulting from a substitution by end-users of milk concentrate and other white fats for butter. Export availability was expected to be 7,620 tons, after making an allowance for closing stocks of 10,000 tons. As a result of increased international butter stocks and limited demand prospects, the international market prices were expected to remain depressed during the 1984/85 season.

18. Commenting on the figures supplied in reply to the questionnaire the representative of Argentina drew attention to the significant drop in stocks of butter during the first quarter of 1984 compared to the level in the corresponding period of the preceding year. The trend was reversed in the fourth quarter when stocks significantly increased. On the other hand, the reduction in production which took place from the beginning of 1984 was somewhat arrested in the third quarter of 1984. Exports of butter showed a significant decline in 1984, falling from 7,409 tons in 1983 to 789 tons in 1984. Average export prices were about US\$ 1,450 per ton to its main market Chile and less significant outlet in the United States.

19. The representative of the EEC said that dairy production for the calendar year 1984 was 2 per cent lower than in 1983. Butter production was 8 per cent less, while consumption of butter was 1 per cent higher. Public stocks of butter as of 14 March were 875,894 tons while private stocks were 37,154 tons. In regard to domestic consumption he noted that nearly 800,000 tons of butter was disposed off at reduced prices within the EEC countries, which corresponded to about 40 per cent of total EEC butter production. This involved a considerable financial burden for the EEC, but the objective of reducing stocks significantly still remained an elusive goal. Further boost to stocks was, nevertheless, halted by these measures. Exports of butter, which currently constituted only 46 per cent, were 65 per cent of total world exports in 1980, and the significant drop in share had not helped in reducing the enormous stocks of butter. Provisional figures for 1984 indicated that exports of all milk fats added up to 359,000 tons, which was at the same level as in 1983. Food aid deliveries were, however, significantly greater than in 1983, which showed that commercial sales were reduced in the same proportion. As regards prices, he mentioned that at the current f.o.b. price of US\$ 1,300 the EEC just could not sell its fresh butter. Traders of the EEC might be able to export 6 month old butter at US\$ 1,190 per ton f.o.b., which would be \$ 10 less than the agreed minimum price. In reply to a question by the representative of New Zealand, he explained that although the volume of butter/butter oil exports had increased from 260,000 tons to 359,000 tons between 1979 and 1984, the increase was insignificant especially if the increase in food aid deliveries was considered, which would reduce in effect the volume of net commercial sales. The forecast for 1985 suggested that milk deliveries would be lower by 2.2 per cent and butter production would be 4.5 per cent less than in the previous year.



20. The observer of Canada estimated that production of butter was 4,000 tons higher than in 1983-84 dairy year. Exports of butter in 1984 added up to 282 tons, while imports were a mere 67 tons.

Other business

Report to the Council

21. The Committee agreed that an oral report on discussions at the current session would be presented to the Council.

Date of the next Session

22. In accordance with the preliminary time table adopted at their twentieth session the Committees decided to hold their next regular sessions on 17 to 19 June 1985, subject to confirmation by the Secretariat.