

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## International Dairy Arrangement

### COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

#### Twenty-Third Session

#### Draft Report

#### Introduction

1. The Committee of the Protocol Regarding Milk Fat held its twenty-third session on 23-24 September 1985.

#### Adoption of the agenda

2. The Committee adopted the following agenda:
  1. Adoption of report on the twenty-second session
  2. Information required by the Committee:
    - (a) Replies to Questionnaire 2;
    - (b) Summary tables;
    - (c) Other information
  3. Review of the market situation for products covered by the Protocol
  4. Review of the level of minimum prices under Article 3:3(b) for products covered by the Protocol
  5. Adjustment of minimum prices according to exchange rate fluctuations
  6. Report to the Council
  7. Date of next session and calendar of meetings in 1986.

Adoption of report on the twenty-second session

3. The Committee adopted the report on its twenty-second session. This was distributed as document DPC/F/38.

Information required by the Committee

(a) Replies to Questionnaire 2

4. The Committee reviewed the replies to Questionnaire 2 and requested members who had not yet communicated such information in respect of the second quarter of 1985 to do so without further delay. Participants were also urged to submit information regarding the third quarter of 1985 by 15 December 1985 at the latest.

(b) Summary tables

5. Summary tables covering the information normally supplied in Tables A and B of Questionnaire 2 regarding milk fats were not available because data relating to the second quarter of 1985 had not yet been received from all the participants. The Committee, however, had before it the summary tables annexed to document DPC/W/47, covering the same information up to 15 August 1985. It noted that revised summary tables would be issued as soon as it was possible for the secretariat to do so.

(c) Other information

6. The Committee considered the information provided by Australia and New Zealand on butter deliveries under the provisions of the 16 November 1984 Resolution. This information was circulated to participants in documents DPC/F/20 and DPC/F/W/19 respectively. The Nordic countries (Sweden, Finland and Norway) also provided information on sales of butter, which had been detailed in document DPC/W/50. In reviewing the register of sales (DPC/W/50), two specific comments were made by the participants. One related to the exact destination of such shipments and the other regarding the exact prices at which sales were made to each destination. For an equitable market sharing, it was necessary for

both such sales to be properly monitored and for prices to be carefully scrutinized. It was pointed out that bigger exporters could set an example by providing more detailed and accurate information regarding such sales. It was also suggested that the dates of sales contracted and delivery schedules must be more clearly indicated.

Review of the market situation for products covered by the Protocol

7. The representative of Uruguay said that butter production during 1984 aggregated 10,000 tons, which was about 20 per cent less than in 1983. The level reached in the first six months of 1985 was only 4,384 tons, of which about 56 per cent was exported, i.e. 2,448 tons. The main destinations for exports were Iran, Argentina and Brazil, and the export prices obtained were US\$1,379 per ton f.o.b. in the first quarter and US\$1,960 per ton f.o.b. in the second quarter of 1985. These prices, however, did not reflect the current market situation since deliveries were made on the basis of contracts signed before the November 1984 Resolution.

8. The representative of Switzerland indicated that butter production in the second quarter of 1985 at 10,400 tons would be about 3 per cent below the level reached in the corresponding period of the previous year. Stocks at the end of June 1985 were substantially higher, but imports in the second quarter were considerably lower than in the corresponding period of 1984. Prices, however, remained unchanged.

9. The representative of Sweden said that butter production in the first half of 1985 was some 3,700 tons or 13 per cent less than the level in the corresponding period of last year. Domestic consumption of butter also suffered a decline of a similar magnitude, although the consumption of "Bregott", a variety of edible fat containing 80 per cent butter and 20 per cent vegetable oil increased by about 1,000 tons during this period. Exports of butter at 7,900 tons were one third lower than in the corresponding period of 1984, and the average export prices realized in September 1985 were also relatively lower at US\$1,060 per ton f.o.b.

10. The representative of Norway reported that butter production in the first six months of 1985 at 14,765 was 2 per cent higher than in the corresponding period of 1984. It was expected to increase further during the third and fourth quarters of 1985. However, exports of butter fell sharply in the first half of 1985 and were only one third of their level in the corresponding period of the previous year. Due to an unrealistic export price of US\$1,000 per ton that could be obtained on the market, the operators were inclined to stockpile rather than to export. This was the reason why stocks of butter had increased to an all time high.

11. The delegate of Finland estimated that butter production in 1985 was not likely to be more than 73,000 tons which, compared to the level in 1984, was about 9 per cent less. Consumption was also expected to level off during the year. Stocks of butter, which were 14,000 tons in April, had increased to 16,700 tons by the end of June 1985. They were, however, expected to be reduced to about 11,000 tons by the close of 1985. A further drop in exports was projected from a level of 22,000 tons in 1984 to 19,000 tons in 1985. Average export price realized in the second quarter of 1985 was around US\$1,113 per ton f.o.b.

12. The representative of South Africa mentioned that production of butter in his country was essentially geared to domestic consumption. At 8,342,000 tons in the first half of 1985, it was about 1 per cent higher than in the corresponding six months of 1984. Stocks of butter at end March were 5,846,000 metric tons, but had come down to 3,500,000 metric tons by end June 1985.

13. The representative of Poland reported that stocks of butter, which in January 1985 were 60,868 metric tons, had been reduced to 47,887 metric tons by the end of June 1985. Production during this period had aggregated 120,454 metric tons, while domestic consumption had totalled 127,465 metric tons. There were no imports or exports of butter during this period.

14. The representative of New Zealand said that production of butter, anhydrous milk fat and other milk fat products in his country in the 1985/86 season was expected to be somewhat lower than the level recorded in the previous season. This was a reflection of the expected

decline in total milk production and the anticipated slight increase in the production of other fat products; whole milk powder and cheese. In terms of butter equivalent, total production both for domestic consumption and for export was expected to be reduced from approximately 295,000 tons to 270,000 tons. Despite this, about 70 per cent of milk fat processed in New Zealand would be used in the manufacture of butter and related products. He further mentioned that because of the problems related to the level and structure of butter stocks, much less anhydrous milk fat would be produced in the current season from cream, with requirements needed to meet export commitments obtained from the conversion of butter to anhydrous milk fat. This should be kept in mind in analysing New Zealand data provided to the secretariat on production, stocks and exports, in order to avoid confusion from double counting. Referring to the discussion in the Committee on the significance of recent increases in the level of milk production in his country, he indicated that virtually all of the additional milk produced had been utilized in the manufacture of butter. Additional production had not, however, been matched by an increase in exports. Figures showed that exports of butter had been and remained remarkably stable. There was, therefore, no truth in the assertion that increased New Zealand milk production had in any way been at the expense of other exporters. Much of the increased production over the two previous seasons had gone into stocks, which were abnormally high and were not likely to be reduced significantly in the light of the existing international market situation. Commenting on the international butter market situation, he said that sales activity had been unusually low. Despite the reduction in prices as a result of a reduction in the GATT minimum prices and the increase in EEC export restitutions in June, the volume of sales had not significantly changed. The EEC restitutions had reduced the export prices to the revised GATT minimum level, thus opening the potential for offers below this level. Since then, the decline in the value of the United States dollar had eased EEC prices upwards, ensuring a safer margin between Community export offer prices and the GATT minimum. Prices were currently in the range of US\$1,000 to US\$1,150 per ton f.o.b. for what limited business was available. He said that the market situation and outlook for anhydrous milk fat was similar to that for butter with most available business covered well forward and few major opportunities for sales available. Prices were currently in the range of US\$1,200 to US\$1,350 per ton f.o.b.

15. The representative of Japan stated that domestic production of butter during the fiscal year 1984 was about 80,126 tons, which was at the same level as last year. Production showed an increase of 10 per cent during the period April-June 1985 compared to the same period a year earlier, due to increased milk deliveries for processing. The domestic market for butter, however, remained weak.

16. Discussing the situation in his country, the delegate of Australia said that butter production (including anhydrous milk fat) in 1985/86 was forecast at 116,000 tons, up by 2 per cent on the 1984/85 production of 114,000 tons, due to the continued diversion of additional milk output into butter/skimmed milk production, as a result of international market pressures. The 1984/85 production was also 2 per cent up on 1983/84 production of 111,300 tons. Domestic consumption of butter/anhydrous milk fat was provisionally estimated to have increased by 2.2 per cent in 1984/85 due to an estimated increase of 5.4 per cent in retail butter sales in response to increased promotional activity and stable prices. However, domestic industrial butter/anhydrous milk fat sales were estimated to have remained constant in 1984/85, and domestic consumption in 1985/86 was only expected to increase marginally from 60,400 tons in 1983/84 to 61,500 tons in 1984/85 and 62,000 tons in 1985/86. Export availability for 1985/86 was estimated to be around 72,000 tons, given desirable closing stocks of 10,000 tons. Actual exports in 1983/84 were 43,200 tons and 55,000 tons in 1984/85. In 1985/86 actual exports were likely to be below the availability. Commenting on the world market outlook, he said that until stocks could be run down through production restraints, international demand was likely to remain weak. International prices for butter and anhydrous milk fat were currently being quoted at their respective International Dairy Arrangement minima of US\$1,000 per ton and US\$1,200 per ton f.o.b. Even though it appeared that world butter production would decline by about 3 per cent in 1985, stocks were likely to remain at their current high levels. Although the expected reduction of 5 to 6 per cent in EEC production in 1985 was most welcome, it was not likely to do more than prevent further increases in stocks. Since the United States ccc butter stocks had been reduced to more manageable levels (69,000 tons on 9 August 1985), the problem essentially was that of EEC intervention stocks which on 29 August 1985 were estimated to be 1,184,879 tons.

17. The representative of the EEC said that butter output in 1985 could be 5.2 per cent below the 1984 level. Stocks of butter in the Community had reached 990,951 tons on 12 September 1985 and private stocks had been at a level of 208,879 tons, i.e. a total amount of some 1,200,000 tons of butter of which some 470,000 tons were more than eighteen months old. The EEC was currently holding 80 per cent of world stocks of butter (1,500,000 tons). Concern was still being felt over the stocks situation in the Community. Moreover, present possibilities for exporting aged butter to the USSR were far from being encouraging. With respect to export prices, Community operators were currently able to export butter at prices between US\$1,050 and 1,070 per ton f.o.b., and anhydrous milk fat at prices between US\$1,230 and 1,260 per ton f.o.b. In reply to a question, he stated that Community services were currently studying various measures to boost internal consumption, and information on the subject would be communicated to the Committee in due course.

Review of the level of minimum prices under Article 3:3(b) for products covered by the Protocol

18. A general discussion took place on this subject which has been reproduced in paragraphs 21-28 of the report of the Committee of the Protocol Regarding Certain Milk Powders.

Adjustment of minimum prices according to exchange rate fluctuations

19. The discussion on this subject was pursued further at the joint meeting of the three Protocol Committees (see paragraphs 28-41 of the report of the Committee of the Protocol Regarding Certain Milk Powders).

Report to the Council

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

Date of next session and the schedule of meetings in 1986

21. The next session of the Committees will be held on 16 and 17 December 1985, subject to confirmation by the secretariat. The session of the Committee of the Protocol Regarding Milk Fat will be followed by the session of the Committee of the Protocol Regarding Certain Cheeses and then the Committee of the Protocol Regarding Certain Milk Powders. The Committee took note of a draft tentative schedule of regular meetings of the Council and Committees in 1986 (DPC/W/49).