

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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International Dairy Arrangement

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EEC NON-COMPLIANCE WITH GATT INTERNATIONAL DAIRY ARRANGEMENT MINIMUM PRICES

Information Supplied by the New Zealand Delegation

The following communication, dated 25 February 1985, has been received from the New Zealand Permanent Mission, with the request that it be circulated as an informal document to other delegations.

A. Introduction

Of the five products for which minimum export prices have been fixed under the GATT:IDA, the Community is no longer observing the minimums for butter, AMF and wholemilk powder. Attached is an outline of the principal reasons EEC prices have fallen below the GATT minima and details on a number of specific cases.

B. Causes

The principal reasons why Community traders' offer prices have fallen below the GATT minima are:

- (i) Currency movements. Since the last across-the-board adjustment was made to export restitutions on 2 June 1983 (adjustments made in April 1984 were to offset intervention price movements) the United States dollar has strengthened against major EEC currencies by 30 per cent. The official ECU/US dollar exchange rate has moved from US\$1 = 1.10565 ECU to US\$1 = 1.4434 ECU - 30.5 per cent. In some cases the downward movement in EEC prices has been greater than the average indicated by these figures because of greater than average movements in individual member State currencies.
- (ii) Intervention purchasing. The steps that the Community has taken to reduce the attraction of selling to intervention have reduced the effective level of intervention prices forcing actual market prices (and through these export offer prices) below theoretical support levels. These steps have included a tightening of specifications on intervention sales, and most important, extending the delay on payments for such sales from the standard 30 days to 120 days.
- (iii) Butter export disposal scheme. The package introduced in July 1984 making six-month old butter available from intervention at discounted price for export as butter or butteroil has been amended on a number of occasions. All of the amendments have had the effect of reducing the effective level of Community export offer prices. They have included:

1. In October the discounts from the intervention price for six-month old butter were increased from 330 to 345 ECU/tonne.
2. Removal of destination restrictions for exports so that all destinations are now eligible.
3. Removal of tracer and other controls initially applied to butteroil.
4. Alteration of packaging required for butteroil - initially restricted to consumer packs but now bulk packaging can be used.
5. The inclusion of private storage aid (PSA) butter under the scheme (approved by the Dairy Management Committee (DMC) on 14 February).

While in a sense these are "technical" factors in that the Commission has not adjusted restitutions to bring prices below the minima, the practical result has been the same. That Community export offer prices for butter, AMF and WMP are now below the GATT minima is verifiable by the Commission's own calculations and, most important, is reflected in actual offers and sales by Community traders.

C. Market reports

1. Wholemilk powder

Wholemilk powder is freely being quoted for export from the Community by EEC traders (who do not hesitate to acknowledge the position) at prices below US\$900 per tonne f.o.b. This is manifest not only in offers for general trade business, for example in South East Asia at prices as low as US\$950 per tonne c.i.f. but also in open tender bids such as:

(A) Mexico

An EC trader contracted with Conasupo, Mexico, in January to supply 450 tonnes of wholemilk powder at US\$941 c. & f. Vera Cruz for shipment April 1985. The balance of wholemilk powder purchased by Conasupo under this tender (1,450 tonnes for shipment January, February, March) was awarded to the New Zealand Dairy Board (NZDB) at US\$1,030 per tonne c.& f.

(B) Peru

In a tender for 2,100 tonnes of wholemilk powder in Peru which closed on 6 February, four offers were lodged by Community traders offering EEC origin wholemilk powder as follows:

<u>EC traders</u>	<u>US\$/tonne</u>	
	<u>F.O.B.</u>	<u>C. & F.</u>
A	891.00	967.00
B	934.00	1,018.00
C	-	1,005.00
D	948.73	1,038.73

The Commission is aware that these examples are representative of the general level of EEC offers and sales at prices below the GATT minimum.

2. Butter

The Commission's calculations, tabled in the GATT International Dairy Arrangement in October confirmed that the general export offer prices for six-month old EEC butter available for export under Regulation 2268/84 are below the GATT minimum price for unsalted butter (US\$1,224 per tonne).

<u>Commission calculation (unsalted butter)</u>		<u>ECU/tonne</u>
Intervention price		3,197.0
Less discount		<u>345.0</u>
		2,852.0
Less restitution		<u>1,252.3</u>
		1,599.7
Add costs to f.o.b.		<u>60.0</u>
		1,659.70
At official exchange rate US\$1 = 1.44341	US\$	1,149.85
Add traders margin (2 per cent)	US\$	<u>23.00</u>
	F.o.b. price US\$	1,172.85
	(say) US\$	1,173.00
Margin below GATT minimum	- US\$ 51/tonne	

In our view the costs and margins allowed in the Commission's calculation are too generous. Also the scheme has been extended to private storage aid (PSA) butter which is available at prices well below the intervention price. These factors together mean that EEC butter is available for export at prices well below the levels calculated by the Commission.

<u>New Zealand calculation</u>	<u>ECU/tonne</u>	
	<u>Intervention</u>	<u>Private storage aid (PSA)</u>
Intervention/cost of butter	3,197.00	3,039.00
Discount	345.00	275.00
	<hr/>	<hr/>
	2,852.00	2,764.00
Less restitution	1,252.30	1,252.30
	<hr/>	<hr/>
	1,599.70	1,511.70
At official exchange rate US\$1 = 1.44341 ECU	US\$ 1,108.28	US\$ 1,047.31
Add costs to f.o.b.	US\$ 25.00	US\$ 25.00
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	US\$ 1,133.28	US\$ 1,072.31
Add traders margin (2 per cent)	US\$ 22.66	US\$ 21.45
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F.o.b. price	US\$ 1,155.94	US\$ 1,093.76
(say)	US\$ 1,156.00	US\$ 1,092.00
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Margin below GATT minimum	US\$68/tonne	US\$132/tonne

The effect of below GATT minimum price offers and sales of butter by Community traders has, so far, been most evident in general trade business with, for example, container lots of packet (250 grs.) salted butter being offered throughout Asia at approximately US\$1,370 per tonne which at f.o.b. is close to US\$1,100 per tonne bulk basis. There have been no recent major open tenders for butter (little butter is traded on this basis) but buyer expectations and competitor reactions to the low priced offers from the Community are no less significant because of this.

3. Butteroil

As for butter, the Commission's own calculations show Community offer prices below the GATT minimum (as US\$1,440 per tonne) for butteroil produced from six-month old (Regulation 2268/84) and sixteen-month old (Regulation 2278/84) butter as follows:

<u>Commission calculation</u>	<u>ECU/tonne</u>	
	<u>Regulation 2268</u>	<u>Regulation 2278</u>
Intervention price butter	3,197.00	3,197.00
Less discount	345.00	400.00
Cost of butter	2,852.00	2,797.00
Conversion at 1.22	3,479.44	3,412.34
Add conversion costs, packaging and costs to f.o.b.	416.00	416.00
	3,895.44	3,828.34
Less restitution	1,810.00	1,810.00
	2,085.44	2,018.34
Conversion at US\$1 = 1.44341 ECU	US\$ 1,444.80	US\$ 1,398.31
Margin (2 per cent)	US\$ 28.90	US\$ 27.97
F.o.b. price	US\$ 1,473.70	US\$ 1,426.28
(say)	US\$ 1,474.00	US\$ 1,426.00

Margin below GATT minimum - US\$14/tonne

New Zealand's calculations, incorporating allowances for costs and margins and taking account of the ready availability of private storage aid butter at prices around US\$110 per tonne below intervention, are as follows:

New Zealand calculation

	<u>Regulation 2268</u>	<u>Regulation 2278</u>	<u>PSA</u>
Intervention/Cost of butter	3,197.00	3,197.00	3,039.00
Less discount/Aid	345.00	400.00	275.00
	2,852.00	2,797.00	2,764.00
Add costs of delivery	20.00	20.00	20.00
In store cost of butter processor	2,872.00	2,817.00	2,784.00
Yield at 1.22	3,503.84	3,436.74	3,396.48
Cost of processing/packaging	225.00	225.00	225.00
	3,728.84	3,661.74	3,621.48
Less restitution	1,810.00	1,810.00	1,810.00
At official exchange rate	1,918.84	1,851.74	1,811.48
US\$1 = 1.44341 ECU	1,329.38	1,282.89	1,255.00

New Zealand calculation (cont'd)

	<u>Regulation</u> <u>2268</u>	<u>Regulation</u> <u>2278</u>	<u>PSA</u>
Add costs to f.o.b.	25.00	25.00	25.00
	<hr/> 1,354.38	<hr/> 1,307.89	<hr/> 1,280.00
Add traders margin (2 per cent)	27.00	26.16	25.60
F.o.b. price	1,381.38	1,334.05	1,305.60
(say)	1,381.00	1,334.00	1,306.00

Margin below GATT minimum US\$59/tonne - US\$106/tonne - US\$134/tonne

There is widespread evidence of actual offers and sales by EEC traders of butteroil at prices consistent with New Zealand's calculations. Some examples include:

A. Peru. Bid lodged by an EC trader in a January tender was as follows:

	<u>US\$/tonne</u>		<u>Shipping period</u>
	<u>F.o.b.</u>	<u>C.&f.</u>	
(a) Base	1,395	1,529	February/March
	1,453	1,587	April/August
(b) Alternative	-	1,498	February/March
using Peruvian flag	-	1,555	April/August
line with minimum 1,000 tonne shipment			

The EC traders' offer was for 600 tonnes so the optional offer (b) was conditional on success in a concurrent skimmed milk powder tender in order that shipping could be combined.

B. Colombia. Bid lodged by an EEC trader in a February tender for 200 tonnes of anhydrous milk fat:

US\$1,430 per tonne f.o.b. Antwerp - 20 kg. tins in cartons

US\$1,415 per tonne f.o.b. Antwerp - 30 kg. tins loose.

C. General trade. Offers to the general trade in South East Asia at US\$1,480 per tonne c.& f. (at a maximum US\$1,380 per tonne f.o.b.).

D. Plant trade. Major recombining plant customers of the NZDB have indicated the availability to them of anhydrous milk fat suitable f.o.b. recombining purposes ex the EEC at prices equivalent to over US\$100 per tonne below the GATT minimum.