

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

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Special Distribution

International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

EIGHTEENTH SESSION

Report

Introduction

1. The Committee of the Protocol Regarding Milk Fat held its eighteenth session on 20 June 1984.

Adoption of the Agenda

2. The Committee adopted the following agenda:
 1. Adoption of report on the seventeenth 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. Other business

Adoption of report on the seventeenth session

3. The Committee adopted the report on its seventeenth session. The report will be distributed as document DPC/F/27.

Information required by the Committee

- (a) Replies to Questionnaire 2

4. The Committee reviewed the replies to Questionnaire 2 and requested members which had not yet communicated information for the first quarter of 1984 to do so without delay. In addition, it was pointed out that replies to Questionnaire 2 relating to the second quarter of 1984 should reach the secretariat not later than 15 September 1984.

(b) Summary tables

5. The Committee had before it a document containing revised summary tables (DPC/F/W/1/Rev.17) prepared in conformity with Rule 28 of the Rules of Procedure and reproducing 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.17.

(c) Other Information

6. No other information was requested.

Review of the market situation for products covered by the Protocol

7. The representative of the EEC said that the Council of the European Communities had established new measures designed to check the growth of milk production and restore a balance between supply and demand; those measures had been established in particular by Regulation (EEC) No. 856/84 and Regulation (EEC) No. 857/84. An additional levy had been introduced on quantities of milk in excess of those delivered during 1981, plus 1 per cent. The Council had determined the quantities in question for each member State. The total quantity for the Community was 98,363,000 tons per milk year. To facilitate the transition, however, the total guaranteed quantity had been fixed at 99,235,000 tons for the 1984/85 milk year (beginning on 2 April 1984). In parallel, the Council had fixed a reference quantity for direct sales to consumers; that quantity amounted to 4,200,000 tons. At the option of the member State, the total quantity was distributed among either individual producers (formula A) or dairies (formula B). On quantities exceeding the quotas, 75 per cent of the target price for milk was levied where formula A was applied and 100 per cent where formula B was applied. With respect to the co-responsibility levy, the compulsory contribution for the 1984/85 milk year had been increased to 3 per cent of the target price for milk, as against 2 per cent in the preceding milk year. Through those measures, the Community hoped to be able to restore the balance between supply and demand. The beneficial effects of such measures were not immediate, however, and their results could probably only be evaluated in future milk years. In the light of the results obtained, the EEC would then try to improve the measures. On the one hand, the EEC was taking measures to hold down milk production and on the other hand was making considerable efforts to promote consumption of dairy products, in particular skimmed milk powder in the animal feed sector and also butter. In addition, the EEC was pursuing a non-aggressive policy with regard to exports and was importing dairy products, in particular butter and cheese. Milk output had increased by 3.8 per cent in 1983 to the level of 112,791,000 tons. Production and deliveries to dairies in 1984 were forecast to be down by 0.7 per cent and 1.4 per cent respectively in relation to 1983. Furthermore, according to projections, production and deliveries to dairies could decline further in 1985, by 2.2 per cent and 3.3 per cent respectively in comparison with 1984. The dairy herd was expected to decline by 1.9 per cent in 1984 and a further 2 per cent in 1985.

8. The representative of the EEC said that in 1983 output of butter and anhydrous milk fat had been 10.6 per cent above the previous year's level. Apparent consumption of butter seemed to have declined by 2.1 per cent in 1983. Total exports of butter and anhydrous milk fat (including food aid) had been down 10 per cent in 1983. Butter production was forecast to decline by 4.1 per cent in 1984 while consumption could show a slight increase (0.5 to 0.6 per cent) in relation to 1983. Numerous measures were in effect to promote butter consumption and the Community was preparing further measures to that end. Provisional data on exports in 1984 indicated a slight improvement in the situation. At 14 June 1984, public stocks of butter had been at the level of 1,001,762 tons and private stocks had totalled 80,604 tons. Notwithstanding that level of stocks, the EEC was importing butter. As already reported, the EEC had adopted a responsible attitude in regard to exports in order not to disrupt the international market. Prices of butter on the Community market were currently lower by ECU 7 to 8 per 100 kg. than the new intervention price of ECU 319.70/100 kg. Taking into account that market price and likewise the exchange rate between the US dollar and the ECU, Community operators were currently able to export butter at prices between US\$1,550 and US\$1,600 per ton f.o.b. while anhydrous milk fat could be sold at prices within a bracket of US\$1,750 to US\$1,800 per ton f.o.b. Other exporting countries, however, were reported to have offered butter at prices between US\$1,350 and US\$1,550 per ton f.o.b.

9. The representative of Australia said that milk production in the January-March quarter at 1,369 million litres had been 10.3 per cent up on the corresponding period in the 1982/83 season. This increase had brought cumulative milk production for the first nine months of the 1983/84 season to 5,032 million litres, up 7.1 per cent on the July-March period 1982/83. Increased milk flow continued to be attributed to excellent seasonal conditions prevailing in most of the major dairying areas which had enabled continued improvements in farm productivity. If reasonable seasonal conditions continued for the remainder of the current season, the Australian Dairy Corporation estimated 1983/84 milk flow at 5,900 million litres, 6.8 per cent up on the 1982/83 level. Butter and anhydrous milk fat production in the first nine months of the current season had been 27 per cent above the corresponding period in the 1982/83 season. International market pressures continued to result in most of the increased milk production being diverted into butter, skimmed milk powder and casein production. Estimated 1983/84 production of butter at 112,000 tons represented a season-on-season gain of 26.8 per cent. In response to both stable domestic prices and significantly increased promotional activity, domestic consumption of table butter was currently above 5 per cent up on the previous season. Total butter and anhydrous milk fat consumption was estimated to increase around 2 per cent in 1983/84 to 62,000 tons. Given desirable closing stocks, export availability was expected to be around 64,000 tons, but actual exports would likely be well below this level resulting in higher than desired closing stocks. International market prices for butter had been variable in the period under review. Prices were currently in the range of US\$1,540-1,580 per ton f.o.b. but there had been evidence of bulk product being traded at below these levels.

10. The representative of Bulgaria said that in the first quarter of 1984 butter output had remained relatively stable in relation to the corresponding quarter of 1983. Bulgaria neither imported nor exported the product. Consumption had declined by about 10 per cent in the first quarter of 1984. Following that decline, output was expected to drop back in the three last quarters of 1984.

11. The representative of Hungary said that butter production had increased by about 4 per cent in the first quarter of 1984, to the level of 76,000 tons. Imports in that period had been nil as against 3,900 tons in the corresponding quarter of 1983. In parallel, exports had declined very substantially in the period considered, reaching 200 tons as against 4,200 tons exported in the first quarter of 1983. Butter consumption had dropped back in the first quarter of 1984 to 6,000 tons, a decline by 30 per cent in relation to the first quarter of 1983. In the first quarter of 1984, export prices had been in the region of US\$1,530 to US\$1,550 per ton f.o.b.

12. The representative of Japan furnished information on support and stabilization measures. For fiscal year 1984 (beginning 1 April), the guaranteed price of raw milk for processing had been fixed at the same level as the previous year (90.07 yen/kg.). The stabilization indicative prices of the designated dairy products had been set at the same level as the previous year, taking into consideration the fact that the prices of dairy products were decreasing gradually since the autumn of 1983 with the staggering demand of milk for drinking and the resulting increase of production and stocks of dairy products. The maximum quantity for deficiency payment for fiscal year 1984 had been increased by 70,000 tons and set at 2,220,000 tons with the prospect in particular of increase of demand of dairy products. The deficiency payment per kg. was 20.89 yen/kg. for fiscal year 1984, 4 per cent less than the previous year. With regard to the general situation in the dairy sector he said that in fiscal year 1983, milk production per head of cattle had increased due to good weather conditions and good feed crop harvest, although the number of cattle herds had been at about the same level since 1981. Production of fiscal year 1983 had increased by 3.5 per cent as compared to the previous year. On the other hand, although demand for milk products during fiscal year 1983 had been stable, demand of milk for drinking stagnated. Consequently, production of milk products increased. He added that the present price trend was weak. Imports of dairy products in 1983 had been lower than the previous year due to the high imports in 1982. Imports from January to April 1984 had been generally higher than the previous year. With regard to butter he pointed out that imports in the period January to April 1984 increased by 3 per cent as compared to the corresponding period of 1983. Since the second half of 1983 domestic prices of butter were weakening due to increased production.

13. The representative of New Zealand said that milk production for processing into manufactured dairy products had increased by 11.4 per cent for the dairy season which ended on 31 May 1984. The result was a record

for the New Zealand dairy industry. The increase in production had been largely a result of excellent pasture growth conditions in the summer and autumn, with mild temperatures continuing right up to the end of the season. On the assumption that in the 1984/85 season, weather conditions would revert to the average, it was expected that production would be less than that for 1983/84 by about 6 to 7 per cent. The increased milk flow had been used mainly in the manufacture of butter, skimmed milk powder with a small increase for whole milk powder. Market conditions internationally have precluded cheese and casein production from taking a proportional share of the increased milk availability.

14. The representative of New Zealand said that butter production had declined by 1.5 per cent in calendar year 1983 but due to the increase in milk production in the beginning of 1984, butter output had increased by about 10 per cent in the first quarter of 1984. He estimated that production might increase by 6 per cent in calendar year 1984. Butter exports had declined substantially (by 28.4 per cent) in 1983 and had continued to decrease at the same rate in the first quarter of 1984. Stocks of butter increased sharply to reach 62,300 tons at 1 April 1984 as compared to 32,000 tons at 1 April 1983. They had continued to increase in the second quarter of 1984. Consumption of butter had increased by almost 4 per cent in 1983. He pointed out that consumption had been assisted by a promotional campaign undertaken by the New Zealand Dairy Board and by the introduction of two new butter products. With regard to the international market situation, he said that there appeared to be acceptance among major producers and suppliers to the international trade, that available markets for butter, anhydrous milk fat and ghee were inadequate to deal with the large surpluses currently in store in the Northern Hemisphere. International butter markets had been generally quiet since the previous session in March 1984, with only significant markets being in the Middle East and North African regions. Milk production in the USSR had recovered and the Soviet Union's import demand for butter had been at best reticent. Butter prices had been around US\$1,600 per ton f.o.b., but in order to be competitive at the c.i.f. stage in Middle Eastern and North African markets, Southern Hemisphere suppliers had had to accept f.o.b. returns slightly below that level. A similar picture applied for anhydrous milk fat, where continued competition from cheaper vegetable oils had seen the market contract even further. Anhydrous milk fat prices had been around US\$1,700 per ton f.o.b. In the view of his delegation, this was not an encouraging picture in the international trading situation. However, despite the somewhat pessimistic outlook, it seemed that the quality of demand in a number of markets had improved to the point where a small but nevertheless encouraging price increase could be obtained. He emphasized the need for co-operation between participants in terms of stocks management and establishment of prices.

15. The representative of the EEC said that the Community was always ready to co-operate with a view to improving or at least stabilizing the world market. In contrast with recent months, international prices were not currently tending to decline. New Zealand and Community prices were

currently more or less similar. There were no major problems in international trade for butter and anhydrous milk fat in comparison with the situation for skimmed milk powder.

16. The representative of Poland said that milk output was increasing at a rapid rate, mainly because of improved yield and favourable weather conditions during the winter. As a result, production was expected to be in excess of 10 million litres in 1984, i.e. 4 to 5 per cent above the 1983 level. As a consequence of the increase in milk production, butter output had shown a substantial increase (by some 20 per cent) in the first quarter of 1984, reaching 50,000 tons. In the same period, consumption had declined somewhat to the level of 54,000 tons as against 58,000 tons in the first quarter of 1983. Exports had been nil while imports had remained at the same level as in the first quarter of 1983, around 2,500 tons. At 1 April 1984, butter stocks had totalled 25,000 tons as against 30,500 tons one year earlier. In the first quarter of 1984, average import prices had been US\$1,606 per ton c.i.f., the principal origins being European countries.

17. The representative of South Africa said that milk production had recently decreased slightly. It was estimated that this decrease should continue in the coming months. With regard to butter, he pointed out that consumption of butter had increased by 8.6 per cent in 1983, basically due to the promotional campaign which had been undertaken. Consumption had continued to increase in the first quarter of 1984 as compared to the corresponding period of 1983.

18. Referring to his country's dairy policy the representative of Finland said that the introduction of a two-price system was still being considered in the Parliament. Although the final decision had not been made, his delegation wished to outline the main features of the planned two-price system. The main objective was to stop the growth of milk production and to balance production and consumption. It was also planned to direct marketing responsibility in a more consistent way to the producers. With regard to the structure of the two-price system, he said that there would be annual farm quotas for milk for production years starting 1 September. For the quantities of milk produced up to the quota the normal price would be paid to the farmers. For the quantities of milk above the quota, a fee would be introduced. Production quotas would be set according to the higher production of the years 1981/82 or 1982/83 (starting on 1 September). There would be some exceptions to be determined farm by farm. With regard to milk production he said that in the fourth quarter of 1983, production had decreased by 2 to 3 per cent as compared to the corresponding quarter of 1982. In the first quarter of 1984 production had decreased at a slower rate (some 1 per cent). Total production of 1984 would mainly depend on the weather conditions of the summer. It was estimated that deliveries of milk to dairies might reach some 2,990,000 tons in 1984, 50,000 tons less than the previous year. With regard to butter, he said that production and consumption had decreased in

the first quarter of 1984. Exports had risen significantly in that period and the stock situation at the end of March 1984 had been relatively good. During the first quarter of 1984, export prices of butter had been at around US\$1,585 per ton f.o.b.

19. The representative of Norway said that in the period January to April 1984, milk production had decreased by 1.5 per cent as compared to the corresponding period in 1983. It was hoped that the two-price system introduced in 1983 would give more effect in 1984 and 1985. With regard to butter, he said that some 3,000 tons had been exported in the first months of 1984. It was expected that no further exports would be effected for the remainder of the year. During the second quarter of 1984, export prices had been in the vicinity of US\$1,450 per ton f.o.b.

20. The representative of the EEC noted that since international prices were expressed in US dollars, prices were affected by exchange rate variations as between that currency and others. For example, so far as the Community was concerned, although the refund had remained unchanged, export prices in terms of US dollars had declined following appreciation of the latter in relation to the ECU.

21. The representative of Finland said that since February 1984 the US dollar had depreciated in relation to the Finnish markka and Finnish export prices expressed in US dollars had been affected in consequence.

22. The representative of Sweden said that milk deliveries to dairies in the first quarter of 1984 had been 1.4 per cent above their level in the corresponding period of 1983. Production and consumption of butter had increased in the first quarter of 1984 while in the same period exports had declined. Consumption was expected to continue to rise in the second quarter of 1984, while exports could show a further decline. In June 1984, average export prices had been in the vicinity of US\$1,400 per ton.

23. The representative of the United States said that according to certain sources, in the spring of 1984, butter prices on international markets had been between US\$1,300 and US\$1,400 per ton f.o.b. North European and selected major world ports.

24. The representative of New Zealand noted that representative prices of most current operations by the major exporters were in a bracket between US\$1,550 and US\$1,600 per ton f.o.b.

25. The representative of the EEC enquired why Norway and Sweden were exporting butter at prices appreciably below those of the EEC, New Zealand and Australia. In the view of his delegation, butter could be exported at prices higher than those mentioned by the Norwegian and Swedish representatives and it was not in the interest of those two countries to quote prices that were US\$100 to US\$150 per ton lower than those of the major exporters.

26. The representatives of Norway and of Sweden said that they would convey to their authorities the remarks made by the EEC representative.

27. The representative of Switzerland gave the Committee some information on the general situation in the dairy sector. With effect from 1 July 1984, the base price for milk would be increased by 1 centime par kg. to the level of 92 centimes per kg. Prices of table butter and cheese would remain unchanged while the price of cooking butter would be increased by 40 centimes per kg. At the same time, the bonuses for non-marketing of milk were being increased. With respect to import measures, the price supplements on certain cheeses and on edible oils and fats would remain unchanged. Milk deliveries had declined by 4.3 per cent in March and 8.8 per cent in April 1984, due to the fact that since the quota period ran to the end of April, many producers had been close to exceeding their individual quotas. Milk deliveries had recovered in May 1984 with an increase by 5.4 per cent in relation to May 1983. With respect to butter, output in the second and third quarters of 1984 was expected to be above the level one year earlier. Butter imports were tending to decline slightly, while consumption of the product had declined by 2.8 per cent over the period November 1983 to March 1984. Consumption was expected to show a continuing decline from April 1984 to the end of the year, though at a slower rate. Stocks had totalled 4,000 tons at the end of April 1984 and were considered to be at a normal level.

28. The representative of the United States estimated that milk production in calendar year 1984 would be 2.5 to 4.5 per cent below 1983. Indications pointed to a strong rebounding of commercial use for dairy products. It was expected that for fiscal year 1984, commercial use might increase by 3 per cent as compared to the previous fiscal year. He reported that net removals by the Commodity Credit Corporation were now forecast at 10.9 billion lb. (4.94 million tons) milk equivalent, in fiscal year 1984, down 0.5 billion lb. (0.22 million tons) from the previous forecast. Cow numbers in 1984 were expected to average 3 to 4 per cent below the previous year. Although the diversion programme would promote cullings of less efficient cows, average output per cow might be unchanged or slightly lower as some participants in the diversion programme reduced output per cow to meet required cutbacks.

29. The representative of the United States estimated that total stocks of butter (private and government stocks) would decline sharply in 1984 to the level of 183,000 tons at the end of 1984 as compared to 227,000 tons at the beginning of the year. Production of butter would be approximately 550,000 tons in 1984 as opposed to 593,000 tons in 1983. Total consumption at 545,000 tons might remain in 1984 unchanged as compared to 1983. However, sales at normal prices would be up from 411,000 tons in 1983 to 420,000 tons in 1984; special sales would be down from 134,000 tons in 1983 to 125,000 tons in 1984 indicating a reduction in domestic donation programmes. It was estimated that exports of butter would reach 50,000 tons in 1984 as compared to 34,000 tons in 1983, 68,000 tons in 1982 and

54,000 tons in 1981. The expected increase in exports in 1984 over 1983 represented an increase in foreign donations under the Section 416 programme.

30. The representative of New Zealand enquired whether the United States representative could give any information as to destinations of butter exports in 1984.

31. The representative of the United States replied that he did not have the information requested by the New Zealand representative.

32. Referring to the information furnished by the United States representative regarding domestic consumption of butter, the representative of the EEC noted that the United States intended to cut back its reduced-price sales of butter in the current year. He underlined that the Community was making very costly efforts to promote butter consumption and not disrupt the international market.

33. The representative of the United States noted that total domestic consumption of butter, which had reached 448,000 tons in 1981, would probably increase to 545,000 tons in 1984, representing a very substantial increase over that period. What mattered most was that total consumption was rising. Furthermore, special sales could total some 125,000 tons in 1984, well above the level reached in 1981 (approximately 48,000 tons). Special sales at reduced prices had an influence on commercial sales.

34. The observer for Canada indicated that butter output could total some 111,000 to 112,000 tons in 1984. Butter consumption in 1984 was expected to be slightly lower than in 1983, but still above the 1982 level. In fact, differences in the figures were so small that consumption could be deemed relatively stable. On 1 February 1984, the Canadian Dairy Commission had announced that the support price for butter was to be reduced by \$0.30 per kg. for a short period. The Dairy Bureau of Canada had launched an advertising drive to promote butter. However, the margarine producers had likewise launched a publicity drive in favour of their product. The effects of the measures introduced to promote butter consumption could not yet be seen. At 1 April 1984, butter stocks had been below their level one year earlier. However, following the probable recovery in production toward the end of the year, stocks could show some increase. Canada did not participate significantly in the international butter trade.

35. The Committee underlined that the market situation, which was characterized by a high level of stocks and weakness of demand, called for close co-operation among participants.

Other business

Adoption of report to the Council

36. In accordance with Article VII:2(a) of the Arrangement and Rule 22 of the Rules of Procedure, the Committee adopted its report to the Council. That report, on the work at the Committee's eighteenth session, will be distributed as document DPC/F/28.

Date of next session

37. In accordance with the preliminary calendar, it has been decided that the Committees will hold their nineteenth sessions consecutively on 24, 25 and 26 September 1984, subject to confirmation by the secretariat. The session of the Committee of the Protocol Regarding Certain Cheeses will be followed by the session of the Committee of the Protocol Regarding Milk Fat and then by the session of the Committee of the Protocol Regarding Certain Milk Powders.