

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

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International Dairy Arrangement

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INTERNATIONAL DAIRY PRODUCTS COUNCIL

Communication from Australia

The following communication, dated 21 September 1993, has been received from the Australian Permanent Mission.

RESTORING EQUILIBRIUM TO WORLD BUTTERFATS MARKET

Australian Options Paper

Background

The GATT International Dairy Arrangement (IDA) has for some time identified the problem of structural over supply in the butterfats market and the continuing excess incentive to butterfat production in some producer countries.

Australia first raised its concerns in this regard in 1991, noting the fundamental structural changes taking place in the butterfats market. Contributing factors include changing consumer preferences, the availability of cheaper substitutes, the continued use of subsidized production and disposal programmes leading to excess availability on world markets, increasing food aid deliveries and concessionary export sales under various incentive arrangements, including non-participant countries.

Without doubt, however, the major structural change that has taken place has been the substantial withdrawal of countries from the Former Soviet Union (FSU) from the commercial butterfats market. This region accounted for around one third of world butterfat trade in 1990 and 1991. The Committee of the Protocol regarding Milk Fat has recognized at recent meeting the seriousness of the situation and the importance of finding appropriate solutions to these difficulties.

In view of the serious developments in the world butterfats market, the Committee decided to permit the derogation sale of up to 50,000 tonnes per participant of butter and butter oil for exclusive consumption in countries of the FSU, provided all contracts were unconditionally concluded by 31 December 1993. The Committee recognized, however, that this was an exceptional arrangement that could be adopted only as a short-term measure. The Committee noted the reservations expressed by a number of participants and it was agreed that longer-term solutions would need to be considered.

Australia believes that decisions on future minimum price arrangements for butter and butter oil should be made on the basis of a considered assessment of various options for permitting a new, more appropriate market relativity to be restored in this sector, taking into account the structural factors identified above and developments in other pilot product sectors.

Possible options

Possible options include:

- (a) no change to present pilot product prices;
- (b) a permanent derogation for butter and butter oil to FSU markets;
- (c) a substantial one-off reduction in butter and butter oil minimum prices;
- (d) progressive, stepped reductions in butter and butter oil minimum prices as market conditions evolve;
- (e) a suspension of butter and butter oil minimum prices for a period of twelve months to allow pilot product prices to be reset in December 1994;
- (f) permanent suspension of the butter and butter oil minimum prices.

Points for discussion on possible options

- (a) No change to present pilot product prices
 - . Will this address the long-term problem of disequilibrium in the market, given that there has been a shift in the demand curve?
 - . Will this overcome the current uncertainty in the market?
- (b) A permanent derogation for butter and butter oil to FSU markets
 - . Will this stimulate sales to FSU markets?
 - . Will this sufficiently relieve global over-production pressures?
 - . Can FSU markets be effectively quarantined from other world markets?
 - can it be ensured that product will not be channelled through the FSU to other world markets?
 - . Is it possible to maintain GATT minimum prices in other markets?
- (c) A substantial one-off reduction in butter and butter oil minimum prices
 - . Will this address the long-term problem of disequilibrium in the market, given that there has been a shift in the demand curve?
 - . How will the level of price reduction, to restore market equilibrium, be determined?
 - . If the reduction does not achieve market equilibrium, what steps can then be taken to restore the equilibrium?

- (d) **Progressive, stepped reductions in butter and butter oil minimum prices as market conditions evolve**
- . Will this address the long-term problem of disequilibrium in the market, given that there has been a shift in the demand curve?
 - if so, how long will it take to achieve this?
 - . How will markets react to an expectation of continued stepped reductions?
 - could this have an unduly depressing effect on prices?
 - . What will be the short-term disruptive effects if these reductions do not make an effective impact on the problem?
- (e) **A suspension of butter and butter oil minimum prices for a period of twelve months to allow pilot product prices to be reset in December 1994**
- . Will this address the long-term problem of disequilibrium in the market given that there has been a shift in the demand curve?
 - . Can market equilibrium be restored in a twelve-month period?
 - . What will be the effect on the commercial market in the short, medium and long term?
 - . How would IDA minimum prices be re-established at the end of the twelve-month period?
- (f) **Permanent suspension of the butter and butter oil minimum prices**
- . Will this address the long-term problem of disequilibrium in the market given that there has been a shift in the demand curve?
 - . What will be the effect on the commercial market in the short, medium and long term?
 - . Will the long-term absence of minimum prices affect the stability and discipline of the market?
 - . Is it in the interests of members to take decisions of a "permanent" nature?