

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## Pilot Group on Dairy Products

### SUMMARY RECORD OF DISCUSSION 27-28 NOVEMBER 1963

#### INTRODUCTION

1. The Pilot Group was established by the Committee on Agriculture at its meeting of 19 November 1963. Its task is to bring about the basic factual information regarding dairy products and to endeavour, on the basis of such facts, to define the problems facing trade in dairy products with a view to bringing before the Committee on Agriculture a clear definition of these problems and if possible some line of approach of how to deal with the dairy problem in a multilateral way. The Committee on Agriculture will then in the light of the report of the Pilot Group decide on the establishment and composition of a Special Group on Dairy Products.
2. The Pilot Group initiated its work at a meeting held on 27-28 November 1963, under the chairmanship of Mr. F. Gundelach, Deputy Executive Secretary. A note had been prepared by the secretariat providing the latest data on developments in trade of dairy products (Spec(63)304). Furthermore, on the request of the FAO Committee on Commodity Problems, a report on the "Economic Problems of Dairy Products", prepared by a FAO Ad Hoc Working Group in November 1962, and a study on "Means of Adjustment of Dairy Supply and Demand", prepared by the FAO secretariat, were submitted to the Pilot Group to be included as basic material for its discussions.

#### GENERAL DISCUSSION

3. The representative of New Zealand stated that a combination of technological improvements and high support prices had increased production markedly in practically all significant dairy producing countries. On the other hand high prices, in the absence of consumer subsidies, tended to restrain domestic consumption. Trade in dairy products was characterized by the fact that the proportion of dairy products entering into international trade was only small as compared to total dairy production. Furthermore, trade, in particular of butter, was concentrated on only a few commercial markets; this tendency was strengthened by the narrowing of access opportunities for exporting countries. He suggested that the Group should seek ways and means by which importing countries could meet their obligations to exporters in GATT generally and in the trade negotiations in particular. He listed a number of points which the Group might need to consider. The full text of the New Zealand note is reproduced in document Spec(63)306.

4. The representative of Australia agreed with the analysis of the dairy situation that had been given by the New Zealand representative. Production and consumption policies in many countries had led to a situation where on a global basis supply exceeded requirements and consumption was not keeping pace with increasing production. In many instances this had led to surplus milk production which, mainly in the form of butter and dried skimmed milk, was disposed of by means of export subsidies. In the case of butter this had led to a chaotic price situation in particular on the United Kingdom market. The prices ruling in the United Kingdom market had been at such low levels that they did not cover the production costs of any butter exporting country in the world no matter how efficient. These low prices had had a very severe impact on countries which relied heavily on exports of butter products for their export earnings and on the dairy industries of the exporting countries, particularly where a high proportion of production was exported. He suggested that further discussions in the Group would be simplified if the Group initially concentrated on the problems of butter, if necessary in combination with dried skimmed milk. The dairy policies in all producing countries, importing and exporting, should be open for discussion and eventual negotiation. This would include discussion on internal measures including where applicable deficiency payments systems, the principle of limiting deficiency payments to a certain quantum, and indirect subsidies. A further heading for discussion might be the various measures at the frontier such as import duties, variable levies, import restrictions etc. In the field of international trade the levels of international prices needed to be considered as well as export subsidization and dumping. Furthermore, the great disparities in retail and wholesale prices existing in different countries were to be considered as well as measures affecting consumption. Also the question of development of markets in less-developed countries and more advanced countries needed examination. Finally, the Pilot Group might consider various procedural matters.

5. The representative of Denmark emphasized the small proportion of dairy products entering into world trade as compared to total world production. This would mean that already very marginal adjustments in the level of production in the main producing areas and in the level of consumption would suffice for improving and restoring the equilibrium between global supply and demand.

6. The representative of the United Kingdom while agreeing to the necessity of improving the balance in the world supply and demand situation, emphasized the difficulties which had to be faced in reaching a proper equilibrium. He further stated that the present British system of quotas on imports of butter had improved the situation for the traditional suppliers to the United Kingdom market substantially. Butter prices were notably higher since the introduction of the quota system.

7. The representative of the United States felt that more factual information was necessary before the next meeting of the Pilot Group. He felt that it was desirable for members of the Group to submit specific proposals of what governments wanted to achieve in the dairy field and what action importing countries would be required to take. Under the legal procedures in the United States a certain time was required before it could be decided what action his Government could undertake, but his Government's views would be submitted as soon as feasible.

8. The representative of the EEC gave detailed description of tendencies and developments within the Community as regards production, consumption and trade of dairy products. It was to be expected not only that the number of cows would continue to increase, mainly in France, but also an appreciable further increase in average yield per cow was to be anticipated. In this connexion, the relationship between milk and meat prices was important and could influence, to a great extent, milk production and the number of slaughterings. His statement, reproduced in full, is circulated in document Spec(64) 7 .

#### FUTURE PROGRAMME

9. It was agreed that the Pilot Group would have a fairly full exchange of views at its next meeting, to be held preferably early in February 1964; the actual date would be determined by the Chairman in consultation with the members of the Group. Factual background material would be prepared by the secretariat in time for that meeting to enable the Group to explore the whole field of the problem in a broad sense. Specific proposals and suggestions by governments were also desirable.

10. The Chairman suggested an outline of the discussion which the Group might have at its next meeting. The Group might define the dairy products to be considered and establish certain priorities in its consideration. The Group might review and discuss the dairy policies of all producing countries; this discussion would include the different forms of internal support systems, including deficiency payments systems, direct and indirect subsidies, the concept of quantitative limitation (quantum) etc. The Group might consider the various measures taken at the frontier to support dairy producers, such as import duties, variable levies, quota systems etc. The Group might also discuss factors relevant to international trade such as access, the level of international prices, export subsidization and dumping practices. Various other matters might be brought forward such as measures to develop new markets or to increase consumption at existing markets. This might also include supplies at non-commercial terms to countries having a low consumption. In general, the discussion should be held in as broad a sense as possible and no aspects relevant to the problem were to be excluded in advance.