

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

DPC/F/15

4 October 1982

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## International Dairy Arrangement

### COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

#### TENTH SESSION

#### Report

#### Introduction

1. The Committee of the Protocol Regarding Milk Fat held its tenth session on 21 and 22 June 1982.

#### Adoption of the agenda

2. The Committee adopted the following agenda:
  1. Adoption of report on the ninth session
  2. Information required by the Committee:
    - (a) Replies to Questionnaire 2
    - (b) Summary tables
    - (c) Other information
  3. (a) Review of the market situation for products covered by the Protocol
  - (b) Discussion on consumption
  4. Adoption of report to the Council
  5. Other business

#### Adoption of report on the ninth session

3. The Committee adopted the report on its ninth session with amendments submitted by the representatives of the EEC, the United States and Finland. The report will be circulated as document DPC/F/14.

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 1982 to do so without delay. In addition it was pointed out that replies to Questionnaire 2 relating to the second quarter of 1982 should reach the secretariat not later than 15 September 1982.

(b) Summary tables

5. The Committee had before it a document containing revised summary tables (DPC/F/W/1/Rev.9) prepared under Rule 28 of the Rules of Procedure and covering the information furnished in Table A of Questionnaire 2 regarding anhydrous milk fat and butter. That document also contained a table showing butter exports by destination (years 1979 and 80). Regarding the summary tables, it was noted that in cases where the figures furnished were very limited, it would be desirable for participants to furnish at least two meaningful figures so that the percentages shown in the tables and the data in the tables by destination could be as accurate as possible. The Committee also had before it a summary table on consumption of butter in the countries or group of countries replying to the Questionnaire (DPC/F/W/5), prepared in response to a request made by participants at the March 1982 session. It was noted that the data in the table related to apparent consumption; in certain cases, therefore, the figures indicated might not be really meaningful and give a very exact idea of the trend in consumption. It would be desirable for participants to furnish more detailed data, in particular data on real consumption. The Committee agreed that the table showing consumption would be included regularly in the summary tables. The Committee took note of documents DPC/F/W/1/Rev.9 and DPC/F/W/5.

(c) Other information

6. No other information was requested.

Review of the market situation for products covered by the Protocol

Discussion on consumption

(a) Current market situation and outlook

7. The representative of the United States said that butter production for 1982 was expected to reach 595,000 tons, up 6 per cent from 1981. Domestic use of butter might show little change from the 452,000 tons consumed in 1981. Thus, surplus production would continue to accumulate in government-owned inventories held by the Commodity Credit Corporation (CCC). As of 18 June 1982 stocks held by the CCC had amounted to 206,276 tons. By year's

end, both government and commercial stocks could be near 250,000 tons, a sharp gain from the 195,000 tons in storage at the end of 1981. Large butter supplies relative to use and no change in CCC purchase prices over the past year were holding wholesale prices close to year-earlier levels. Butter exports were expected to top 90,000 tons this year, stemming from the sale of 100,000 tons of CCC butter to the New Zealand Dairy Board in August 1981. Approximately 25,000 tons had been shipped during 1981 and the remaining 75,000 tons would be moved during 1982. CCC sales of butter for export to Poland had amounted to 28,000 tons in 1981 with another 10,000 tons being shipped in 1982.

8. The representative of the United States recalled that in order to dispose of stocks, a programme had been undertaken for the distribution of butter for welfare purposes. It was estimated that this programme would amount to some 23,000 tons in 1982. Additional administrative measures would be taken to make it easier for schools and other institutions to use stocks held by the Commodity Credit Corporation (CCC). The Secretary of Agriculture had proposed new legislative authority that would facilitate donations for aid purposes, by allowing for direct transfers of stocks held by the CCC to voluntary agencies, without having to go through purchasing programmes. With regard to commercial exports, she said that the United States had tried so far to behave responsibly with regard to commercial exports, in order not to disturb the world market.

9. The representative of the EEC underlined the concern caused by the increasingly high level of United States stocks of dairy products. With respect to exports already carried out, the United States had adopted a responsible policy and it was to be hoped that that country would continue to endeavour to avoid any disruption of the international market.

10. The representative of the EEC informed the Committee that with effect from 20 May 1982 the target price for milk had been raised by 10.5 per cent to ECU 26.81 per 100 kg. That price was in respect of cows milk delivered to the dairy and with 3.7 per cent fat content. The intervention price for butter with 82 per cent fat content had been raised to ECU 349.70 per 100 kg. as from the same date. It had been estimated that butter output in 1982 could be about 2.4 per cent above the 1981 level, while an increase in consumption by 0.8 per cent was forecast. At 10 June 1982, public stocks of butter had been at the level of 37,096 tons and private stocks at 89,548 tons. Butter exports in the first four months of 1982 had declined somewhat in relation to the corresponding period of 1981. Following recent appreciation of the United States dollar in relation to the ECU and national currencies of the member States, export prices had weakened somewhat to around US\$2,150 to US\$2,200 per ton f.o.b. for butter and around US\$2,450 to US\$2,500 per ton f.o.b. for anhydrous milk fat. The Community was pursuing a responsible policy in regard to exports, and Community prices were largely comparable with those of other exporters. International prices of milk fat depended in particular on prices of competing fats.

11. The representative of Hungary said that in the first quarter of 1982 output and consumption of butter had remained stable in relation to the corresponding period of 1981. Output of butter was expected to increase slightly in 1982, while exports were forecast at several thousand tons.
12. The representative of Japan said that production of butter had declined by about 7.7 per cent in the four first months of 1982. Aggregate stocks at the end of April 1982 had been down from their level at end 1981, reaching 18,000 tons, equivalent to about three months' domestic consumption.
13. The representative of New Zealand said that his country had gone into its winter period fully sold up in butter, reflecting the strong import demand. International market prices for fat products in the first six months of 1982 had remained relatively stable and demand remained firm. The New Zealand butter price (bulk salted basis) remained unchanged for the first half of 1982 at US\$2,200 per ton f.a.s. Prices for anhydrous milk fat remained also unchanged at US\$2,500 f.o.b. but this price was coming under some competition from EEC suppliers.
14. The representative of Poland said that butter imports, mainly from the EEC and the United States, had increased considerably in 1982 while exports had been negligible.
15. The representative of South Africa said that production and consumption of butter in the second quarter of 1982 were forecast at 3,000 and 5,000 tons respectively. In that same period, imports were expected to be in the vicinity of 2,000 tons.
16. The representative of Finland said that the expected decline in milk production in 1982 would affect butter output which might be between 67,000 and 70,000 tons in 1982, as against 72,000 tons in 1981. Domestic consumption of butter was likely to continue in 1982 at the preceding year's level. As a consequence, exports, almost exclusively to the USSR, could drop back considerably to around 9,000 tons in 1982.
17. The representative of Switzerland informed the Committee that the guaranteed producer price for milk had just been increased by 5 centimes per kg. to reach 87 centimes per kg. Butter output in the second quarter of 1982 was likely to show a slight decline following smaller deliveries of milk. For 1982 as a whole, however, output of butter could continue at the 1981 level. Imports of butter could likewise be stable in 1982.
18. The representative of Uruguay said that production and consumption of butter had remained stable in the first quarter of 1982 in relation to the corresponding period of 1981. Butter exports in that same quarter, exclusively to the USSR, had reached 3,200 tons, equivalent to total exports to that destination in the year 1981. By the end of March 1982, butter stocks had declined strongly.

19. The representative of Australia said that seasonal conditions had improved in most areas. It was expected that milk production in 1981/82 would be close to 5,100 million litres, a decrease by 2 per cent over 1980/81. He estimated that production and exports of butter in 1981/82 would amount to 72,500 tons and 10,000 tons respectively, both down 9 per cent in relation to 1980/81.

20. The observer of Canada said that imports and exports of butter had continued to be very small in the first quarter of 1982. Stocks at the end of March 1982 were at around 21,000 tons, an increase from the abnormally low levels of 1980 and 1981. It was considered that the availability of butter was adequate to meet Canadian requirements through 1982.

(b) Discussion on consumption

21. As agreed at the March session, a discussion on consumption took place in the Committee.

22. The representative of Austria said that butter consumption had declined by about 15 per cent in the five first months of 1982. In early June 1982, about 3,300 tons of butter had been offered to the consumers with a reduction of about 17 per cent from the normal retail price of butter. He pointed out that such sales to promote butter consumption were held twice a year and amounted approximately to one quarter of total domestic consumption.

23. The representative of Bulgaria said that production of butter, which was continuing relatively stable, was entirely intended for domestic consumption which had risen from 18,700 tons in 1979 to 19,100 tons in 1980 and 20,200 tons in 1981. Per capita consumption in 1979, 1980 and 1981 had reached 2.25 kg., 2.15 kg. and 2.50 kg. respectively.

24. The representative of Hungary estimated per capita consumption of butter for the current year as between 2.5 kg. and 3 kg., and that of margarine at around 7 kg.

25. The representative of New Zealand said that butter consumption had been trending downwards as a result of price competition from table margarine. Until fairly recently butter prices in New Zealand had been much lower than those of margarine. Following an increase in retail prices for butter, however, the two products were now being sold at the same prices. An aggressive television advertising campaign had been launched to emphasise the advantages of butter.

26. The representative of the EEC said that several very costly measures were being implemented in the Community to promote butter consumption. In addition, a consumption promotion drive was under way for dairy products, financed out of proceeds from the co-responsibility levy. In that context, the Community was financing publicity and promotion drives for butter

consumption. It would be desirable for all participants with low domestic butter consumption to undertake similar consumption drives. Referring to competition between butter and margarine, he noted that this had been in existence in the Community for a long time and margarine prices were considerably lower than those of butter, even as little as one third in certain member States. Margarine consumption was very high in some member States, either because of wide differences in price in relation to butter or because of certain eating habits. Efforts were being made, in particular through butter sales at reduced prices to processing industries, to make butter fats competitive with vegetable fats. The Community was endeavouring to dispose of butter on the internal market in order not to disrupt the international market for butter fats.

27. The representative of Finland said that per capita butter consumption in his country - 12.1 kg. in 1981 - was one of the highest in the world. Consumer habits could be mentioned as one reason for that high consumption level. However, there had been a slight declining trend in butter consumption in recent years. He pointed out that many steps had been taken by the Government to increase the consumption of butter. He concluded by stating that the ratio between the butter and margarine prices had remained constant in recent years, in the sense that if the price of butter rose, the price of margarine increased correspondingly.

28. The representative of Norway said that per capita butter consumption had dropped by 20 per cent in 1981 in relation to 1980, to the level of 4.7 kg. This decrease had been the result of sharp increases in prices of butter as from the beginning of 1981 when the consumer subsidies on butter had been removed. At the same time, there had been only small changes in the prices of margarine. In order to promote consumption of butter, the Milk Marketing Board has launched advertising campaigns.

29. The representative of Sweden estimated that in 1982 the consumption of butter as such would remain unchanged as compared to 1981 while the consumption of various mixtures containing butter fat and vegetable oil would probably increase.

30. The representative of Switzerland said that vegetable fats were taxed on import in order to maintain a certain price relation between animal fats and vegetable fats. The import charges on vegetable fats were having to be adjusted to take account of the recent increase in milk prices, reflected in higher prices for butter.

31. The representative of Australia said that domestic consumption of butter had declined rapidly over the past decade with the introduction of margarine. Total consumption of butter and butteroil in 1980/81 had reached only 63,700 tons compared to 117,000 tons in 1970/71. However, the decline in consumption appeared to have levelled off and it was expected that consumption of butter in 1981/82, at 55,000 tons, would be only marginally down on 1980/81. Consumption of butteroil, at 7,000 tons in 1981/82, would

probably decline by 17 per cent from 1980/81. Retail sales of butter had stabilized at around 30 per cent of the total table spreads market notwithstanding significant price increases during the 1979/80 to 1981/82 period. It was expected that this share of around 30 per cent would be retained over the coming 1982/83 year given present levels of promotional support. Consumption of butteroil was expected to continue to decline in 1982/83 as end users had turned to other sources of milk fat, including cream and concentrates. The Australian Dairy Corporation had been looking at unfavourable publicity which had been directed towards dairy foods as a whole and it believed that the time was now ripe to take a stronger stand on the health image problems faced by all dairy foods. Consequently, it intended promoting strongly dairy foods. A number of measures had been undertaken including the production of dietary booklets. The nutritional value of dairy foods and their essential rôle in a balanced diet would receive emphasis in future promotions. The Australian Dairy Corporation was attempting to adopt a responsible and a credible position on the promotion of dairy foods within a context of an overall decrease in total fat consumption in Australia.

32. The Committee agreed that milk fat consumption should be reviewed regularly.

33. The representative of New Zealand said that his delegation wished to introduce a proposal to develop discussion on the consumption of dairy products. He pointed out that the Council had been established to exchange information among participants on production, consumption, prices, stocks and trade in respect of dairy products. If the Council found that a serious market imbalance was developing it would proceed to identify possible solutions for consideration by governments. He noted that in the discussions concerning consumption of cheese and milk fat some reference had been made to government programmes designed to promote consumption. In the view of his delegation, it was vital to stimulate consumption in order to avoid serious market imbalances. He believed that it would be useful to take the discussions concerning consumption further and in a different format. His delegation wished to suggest a programme to generate fuller discussion of government policies undertaken to encourage consumption of dairy products, especially in the major consuming markets. The objective of this proposal was to promote an informal and in-depth discussion between experts in order to allow them to exchange and pool together their experience in government programmes and to achieve a comparative assessment of the various range of programmes. In order to achieve this objective, his delegation wished to suggest that as an initial step, the participants might communicate to the secretariat a list of their major government programmes undertaken to increase domestic consumption of dairy products. These replies to the secretariat could provide a factual basis for a comparative and objective assessment of each programme which would be discussed by an informal working party. He assumed that any decision on this proposal could not be taken until the next session of the Council. In the meantime his delegation would be interested in any preliminary views expressed by participants.

34. The representative of the EEC said that the text of measures regarding disposal of dairy products within the Community was published in the Official Journal of the European Communities. Referring to the New Zealand proposal, he pointed out that eating habits and trade structures could vary from one participant to another. Accordingly, whether for structural reasons or budgetary considerations, wide divergencies could be seen in the application of disposal measures adopted by the various participating countries. Without prejudice to whatever decisions the Community authorities might take on the proposal, a meeting could be held to make an inventory of measures taken and determine the final objective of the exercise. In addition, he pointed out that information on measures affecting consumption was to be furnished under Questionnaire 5. Participants should reply clearly to that Questionnaire, in particular regarding measures or policies affecting consumption. The secretariat could perhaps prepare a working document recording the consumption measures described in replies to Questionnaire 5. In a first stage, the document could report measures taken affecting consumption of skimmed milk powder and butter.

35. The representative of Australia supported the views expressed by the representative of New Zealand on the subject of consumption. He considered that the effects of government domestic policies were one of the major determinants by which excess production could be absorbed in a way that was less harmful to the world trade in dairy products. His delegation could support the proposal made by the representative of New Zealand. However, the exact modalities for pursuing a review on consumption were still unclear. He suggested that New Zealand could submit in writing its proposal for distribution to the participants in order to enable them to come to the next sessions of the Committees with a clear position.

36. The representative of the United States said that it would be helpful for New Zealand to provide in writing its proposal in order to facilitate the discussions in the next sessions.

37. The spokesman for the Nordic countries said that the delegations of the Nordic countries had noted the proposal made by the representative of New Zealand. The delegations of the Nordic countries had no instructions on this proposal which was not in the agenda of the meeting. They would transmit this proposal to their authorities.

38. The representative of New Zealand thanked the delegations who have commented on the proposal of his country. His delegation would communicate to the secretariat as soon as possible the proposal in writing for distribution to the participants.

39. It was noted that New Zealand would communicate in writing the proposal made regarding consumption of dairy products. Participants which have not yet communicated to the secretariat their replies to Questionnaire 5 or wish

to amend or update replies already furnished were requested to do so as soon as possible. It was agreed that the New Zealand proposal would be taken up again at the next session of the Committees. To facilitate that examination, the secretariat will prepare, on the basis of replies to Questionnaire 5, a document recording measures reported which affect consumption of skimmed milk powder and butter.

Adoption of report to the Council

40. In pursuance of Article VII:2(a) of the Arrangement and Rule 22 of the Rules of Procedure, the Committee adopted the report to be submitted to the Council. That report, on the work of the tenth session, will be circulated as document DPC/F/13.

Other business

Date of next session

41. In accordance with the preliminary calendar, it has been decided that the Committees will hold their eleventh sessions consecutively on 27, 28 and 29 September, subject to confirmation by the secretariat. If their work permits, the Committees will hold their sessions over two days instead of three. The session of the Committee of the Protocol Regarding Certain Milk Powders will be followed by the session of the Committee of the Protocol Regarding Certain Cheeses, then the session of the Committee of the Protocol Regarding Milk Fat.