
International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

FIFTEENTH SESSION

Draft Report

Introduction

1. The Committee of the Protocol Regarding Milk Fat held its fifteenth session on 26 September 1983.

Adoption of the agenda

2. The Committee adopted the following agenda:
 1. Adoption of report on the fourteenth 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. Review of the level of minimum prices for products covered by the Protocol
 5. Other business

Adoption of report on the fourteenth session

3. The Committee adopted the report on its fourteenth session. The report will be distributed as document DPC/F/21.

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 second quarter of 1983 to do so without delay. In addition, it was pointed out that replies to Questionnaire 2 relating to the third quarter of 1983 should reach the secretariat not later than 15 December 1983.

(b) Summary tables

5. The Committee had before it a document containing revised summary tables (DPC/F/W/1/Rev.14) 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.14.

(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 United States estimated that the production of butter in 1983 would probably be up about 2.5 per cent from year-earlier levels, but his authorities were looking for a decline of some 3 per cent in 1984. Uncommitted government stocks of butter on 23 September 1983, at 180,000 tons, had been nearly unchanged from a year earlier and

significantly lower than the initial forecasts. The decline in butter output expected for next year, along with a small gain in domestic consumption, were likely to reduce government purchases of surplus butter in 1984. Domestic donations of butter from government stocks in 1984 would be close to 1983 levels, but foreign donations under the PL 480 Title II and section 416 programmes would be lower.

8. The representative of the EEC estimated that total production of butter might show an increase of about 11 per cent, whereas apparent consumption might decrease by about 2.1 per cent in 1983 compared with 1982. On 15 September 1983, public stocks of butter had reached 607,518 tons; at the same date private stocks had amounted to 232,434 tons. During the first half of 1983 exports of butter had decreased, whereas commercial exports of butter oil had increased. The export price was now between US\$1,680 and US\$1,720 per ton f.o.b. for butter and between US\$1,900 and US\$1,940 per ton f.o.b. for butter oil. He indicated that only marginal sales of butter were being made at the prices mentioned. Traders in the Community had recently sold butter from third countries and second quality butter at prices below US\$1,680 per ton f.o.b.

9. The representative of Australia estimated that production of butter and butter oil could increase by as much as 10 per cent in 1983/84, because a substantial part of the expected increase in milk production might be used for the manufacture of butter and skimmed milk powder. The domestic market was fairly static. It was expected that export availabilities could increase to 43,000 tons in 1983/84. Depending on developments in other parts of the market, particularly in the cheese market, the quantity of butter available for export could even be higher. With respect to international prices, the levels mentioned by the representative of the EEC seemed to correspond, for both products, to the information available to his authorities.

10. The representative of Hungary said that production of butter had remained stable in the first half of 1983, while exports and consumption

had increased. Because of the increase in domestic demand, Hungary had had to import substantial quantities of butter, besides drawing on stocks. As a result, stocks at the end of the first half of 1983 had been considerably reduced as compared with the end of the first half of 1982.

11. The representative of New Zealand made the following estimates concerning the mix of products manufactured for export in 1983/84: butter and anhydrous milk fat production might increase slightly compared with 1982/83; butter production would decrease; anhydrous milk fat production was expected to increase quite sizeably. It was pointed out that in 1982/83 a substantial part of the anhydrous milk fat exported had been manufactured from butter imported from the United States. New Zealand would try to reduce its production of cheese by about 20 per cent in 1983/84, in particular because of a decline in export possibilities. Skimmed milk powder production might increase slightly in 1983/84, while casein production might show a marginal increase and whole milk powder production might remain stable in 1983/84. International prices were currently around US\$1,700 per ton f.o.b. for butter and between US\$1,850 and US\$1,900 per ton f.o.b. for anhydrous milk fat.

12. The representative of Poland estimated that consumption of butter per head of population might increase very substantially in 1983 and reach about 8.2 kg.

13. The representative of South Africa said that butter consumption had increased significantly in the second quarter of 1983, owing to a pre-stocktaking by consumers before a price rise of 10 per cent, which had taken place as from 1 July 1983.

14. The representative of Finland said that the increase in milk production was reflected in the production of butter, which had increased by about 30 per cent during the first half of 1983. On the other hand, consumption of butter had declined, so that exports might increase very substantially in 1983. Export prices had been around US\$2,050 per ton f.o.b. during the first half of 1983.

15. The representative of Sweden said that total consumption of butter and butter mixtures had increased by about 10 per cent so far in 1983. Exports of butter in the first eight months of 1983 had increased to some 12,600 tons. Export prices had fallen to about US\$1,750 per ton f.o.b. in August 1983.

16. The representative of Switzerland said that butter production was now increasing, owing to the increase in milk deliveries. It was estimated that butter production might increase slightly over the whole of 1983, whereas consumption might show a slight decline because of the rise in prices on 1 July 1983. Imports of butter might fall to about 11,000 tons in 1983, as against 15,300 tons in 1982.

17. The representative of the United States said that his delegation wished to give the Committee some information on world butter prices obtaining in August 1983. According to certain indications, Finland had sold butter to Yugoslavia at US\$1,745 per ton c. & f., which corresponded approximately to US\$1,670 per ton f.o.b. Sales by Australia and New Zealand to Iran had been made at prices between US\$1,600 and US\$1,700 per ton c. & f., or between US\$1,500 and US\$1,600 per ton f.o.b. after deduction of transport costs. At the middle of August, the lowest offering prices had been between US\$1,350 and US\$1,400 c. & f. West European ports for butter originating mainly in Eastern Europe; those offers corresponded to approximate f.o.b. prices ranging between US\$1,275 and US\$1,325 per ton Eastern European ports.

18. The observer for Canada said that present butter stocks were somewhat higher than their level a year earlier. Butter production had declined by 7.6 per cent in the dairy-year 1982/83. Consumption had decreased by 0.1 per cent in the eleven-month period August 1982 to June 1983. It was estimated that butter production could range between 100,000 and 105,000 tons in 1983/84, or a decline of 5 to 10 per cent compared with 1982/83.

19. The Committee underlined that the world market situation for dairy

products was serious. It noted that the utmost vigilance was necessary and expressed the hope that the development in the market situation would not necessitate recourse to the provisions of Article 4 of the Protocol. The Committee underlined the decisive importance of strict observance of all the provisions of the Arrangement in order to keep market conditions as stable as possible.

Review of the level of minimum prices for products covered by the Protocol

20. In accordance with the provisions of Article 3, paragraph 3, of the Protocol, the Committee proceeded to review the level of minimum prices for products covered by the Protocol.

21. The representative of Australia recalled that in previous years the Committee had had before it proposals to increase minimum prices. In his delegation's view, the argument for increases in minimum prices was that the costs faced by producers had increased. In Australia those costs had increased by some 15.5 per cent in 1982 and were expected to increase by some 12 per cent in 1983. Further, in the manufacturing sector of the dairy industry there had been substantial increases and more were forecast for 1983/84. The previous year, some delegations had considered that world market conditions, characterized by increasing stocks and stagnant demand, did not justify an increase in minimum prices. However, in order to retain and improve the credibility of the Arrangement, minimum prices should be increased to a level which would provide meaningful protection for industries subject to the impact of world market changes, such as those of Australia and New Zealand. For reasons of balance of advantages and obligations and of equity, his delegation hoped that it would be possible to achieve some increase in the minimum prices. Although there were fears that minimum prices might not, in some cases, be respected by private traders, the important point, in his delegation's view, was that the participants in the Arrangement themselves were resolved that the minimum prices be respected. While his delegation was not making any detailed proposal at the present meeting, he noted that certain proposals to

increase the minimum prices had been made in 1982. It was the Australian delegation's belief that those proposals could usefully serve as the basis for discussion at the present meeting.

22. The representative of the EEC noted that costs to producers had indeed increased. It was necessary, however, to take account of other elements, such as the trend of the international market situation and fluctuations in the value of the United States dollar on foreign exchange markets. He pointed out that production and stocks had increased, whereas international prices for dairy products had fallen. In addition, certain dairy products had even been exported at prices below the present minimum prices. Furthermore, since 1 October 1981 the United States dollar had appreciated by 29 per cent against the ECU, which might be interpreted as a proportionate increase in the minimum prices. In view of the international market situation, the prices really obtaining on that market and the appreciation of the United States dollar, his delegation was not at present able to consider an increase in the minimum prices. If the international market situation were to improve, however, the Community would take the initiative of proposing such an increase.

23. The representative of New Zealand recalled that at the meetings of the Committees in September 1982, his country had made a specific proposal for increases in the minimum prices. He also pointed out that, with the exception of one participant, all participants had been prepared to support a compromise on minimum price increases. He regretted that a consensus had not been reached in September 1982, when circumstances had been rather different from what they were at present. However, his comments should not be interpreted as meaning that in New Zealand's view there should not be an increase now. His delegation had nevertheless to recognize that there had been some evolution of the situation since September 1982. A review of the minimum prices in terms of the criteria listed in Article 3, paragraph 3(b) of the Protocol indicated that costs to producers had significantly increased over the last year. New Zealand had maintained, and still maintained, that the minimum price levels set in 1979 had been too low and

that the adjustments made in 1981 had not been adequate. Referring to the comments made on the appreciation of the United States dollar, he said that his delegation could accept that point in part, but one must be cautious about placing too much emphasis on the question of currency movements. With regard to the situation on the international market, he considered that demand was somewhat weaker and prices somewhat lower than the previous year. In conformity with the provisions of Article 3, paragraph 3(b) of the Protocol, in undertaking its review the Committee should take account, in particular, of the need to maintain a long-term minimum return to the most economic producers and the need to maintain stability of supply. It was becoming increasingly difficult for New Zealand producers to produce milk at the returns they were receiving. The returns would be decreasing that year by more than 15 per cent in real terms. He added that in the longer term, the need to maintain stability of supply was an important factor. Finally, he recalled that the Committee should have regard to the desirability of improving the relationship between the levels of the minimum prices and the dairy support levels in the major producing participants. Having regard to that criterion, an increase in the minimum prices was justified. In view of all these factors, with the exception of the market situation factor, his delegation could fully support the proposal made by the representative of Australia. He noted that reference had been made to the concept of credibility of the Arrangement. In that context, his delegation wished to point out that participants had undertaken to take the steps necessary to ensure that the export prices of the products covered by the Protocol would not be less than the minimum prices applicable under the Protocol. In his delegation's view, if, unfortunately, export prices should decline, they should remain at the minimum price applicable under the Protocol. If the Committee decided to increase the minimum prices that year on the basis of the proposals made in 1982, the new minimum prices would be very close to market prices, when the fall of those prices by US\$200 to US\$300 per ton in one year was taken into account. On the other hand, his delegation would not wish importing countries or countries which were not parties to the Arrangement to interpret a present decision to increase minimum prices as an attempt to

forestall a possible trend of the market situation. The level of minimum prices should be considered as an absolute disaster level for the most efficient producers. In his delegation's view, that was another aspect of the concept of credibility of the Arrangement. He reiterated that several factors would justify an increase in the minimum prices, in particular rising costs to producers. If a consensus could be reached in favour of increasing the minimum prices, his delegation would, of course, support it. However, for the reasons already mentioned his delegation had decided to refrain from proposing specific increases in the minimum prices at the present session.

24. The representative of the United States said that his delegation did not believe that an increase in the minimum prices was consistent with the current supply and demand situation. He considered that market prices might indeed weaken. Minimum prices should not be brought up to market price levels. A minimum price at or near the market price level had a potential for disrupting free trade on the international market. His delegation did not believe that it would be appropriate to increase the minimum prices at the present time.

25. The spokesman for the Nordic countries said that, considering the present market situation and currency fluctuations, the delegations of the Nordic countries believed that the minimum prices should be maintained at their present levels.

26. The representatives of Japan, Poland, Egypt, Austria, Switzerland and South Africa said that the minimum prices should remain unchanged.

27. It was noted that several factors which would justify an increase in the minimum prices had been mentioned, in particular rising costs to producers. It was also noted, however, that having regard to the international market situation, an increase in the minimum price could not currently be considered desirable.

28. The representative of Australia said that his delegation was very disappointed with the result of the discussion. He hoped that when the market situation improved the Committee would agree to an increase in the minimum prices. His delegation would look forward to a discussion on that question at some later time in better circumstances and, hopefully, with better results.

Other business

Report to the Council

29. The Committee agreed that an oral report giving an account of its discussions at the present session would be submitted to the Council.

Date of the next session

30. In accordance with the preliminary calendar, it was decided that the Committees will meet on 15 and 16 December 1983, subject to confirmation by the secretariat. The sixteenth session of the Committee of the Protocol Regarding Certain Cheeses will be followed by the sixteenth session of the Committee of the Protocol Regarding Milk Fat, which will be followed by the sixteenth session of the Committee of the Protocol Regarding Certain Milk Powders. The Committees will hold a joint meeting in conjunction with their sessions of December 1983, in order to continue the study of government measures to increase domestic consumption of dairy products.

ANNEX/ANNEXE/ANEXO

LIST OF REPRESENTATIVES - LISTE DES REPRESENTANTS -
LISTA DE REPRESENTANTES

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