

GENERAL AGREEMENT ON TARIFFS AND TRADE

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International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

Twenty-Second Session

Draft Report

Introduction

1. The Committee of the Protocol Regarding Milk Fat held its twenty-second session on 17-18 June 1985.

Adoption of the agenda

2. The Committee adopted the following agenda:
 1. Adoption of report on the twenty-first 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. Adoption of report to the Council
 5. Information on deliveries under Resolution of 16 November 1984
 6. Adjustment of minimum prices according to exchange rate fluctuations
 7. Date of next session

Adoption of report on the Twenty-First Session

3. The Committee adopted the report at its twenty-first session. This was distributed as document DPC/F/36.

Information required by the Committee

(a) Replies to Questionnaire 2

4. The Committee reviewed the replies to Questionnaire 2 and requested members who had not yet communicated such information in respect of the first quarter of 1985 to do so without further delay. Participants were also requested to submit information regarding the second quarter of 1985 not later than 15 September.

(b) Summary tables

5. The Committee had before it a document containing revised summary tables (DPC/F/W/1/Rev.24) prepared under Rule 28 of the Rules of Procedure, and covering the information supplied in Tables A and B of Questionnaire 2 regarding milk fats. The Committee took note of this document.

(c) Other information

6. No additional information was requested or provided.

Review of the market situation for products covered by the Protocol

7. The representative of Switzerland estimated that butter production in the second quarter of 1985 would reach 12,000 tons, i.e., 10 per cent more than in the second quarter of 1984. Output in the third quarter was expected to remain the same as the preceding year's level while a decline was predicted for the fourth quarter of 1985. Butter imports in the second quarter of 1985 had totalled 1,000 tons. The level of imports in the last two quarters of 1985 was likely to be at least as high as in the corresponding period of 1984. Stocks of butter at the end of May were estimated at 6,100 tons.

8. The representative of Sweden indicated that butter production during the first quarter of 1985 was 1,500 tons below last year's level. During this same period, however, domestic consumption of butter had decreased by 1,400 tons and the consumption of "Bregott", a kind of edible fat containing 80 per cent butterfat and 20 per cent vegetable oils, had increased by 100 tons. Exports of butter during the period from January to the middle of June 1985 was approximately 7,500 tons compared to 10,300 tons in the first six months of 1984. Stocks at the end of the first quarter of 1985 and at present were slightly above last year's level. Average export price in the beginning of June was US\$1,080 per ton/f.o.b.

9. The representative of Norway stated that both production and consumption of butter had increased in his country. Stocks had increased by 27 per cent compared to their level last year. Exports had ranged between 700 and 800 tons until June 1985, and export prices realized were just below the GATT minimum, i.e. US\$950-1,000 per ton/f.o.b. The market did not appear to be in good shape in view of the prevailing prices there.

10. The representative of Finland reported no significant change in dairy production in general and in butter output in particular during the first quarter of 1985. Consumption was also expected to level off during the year. The downtrend in exports had continued, and the revised estimates showed that they would not be more than 17,5 million kilograms. As a result, stocks by the end of May 1985 were expected to be 16.3 million kilograms. As to the EEC question what quantities of butter and at what prices it was expected would be shipped to the Middle East countries, he promised to provide the necessary information later.

11. The representative of South Africa stated that butter production was essentially geared to the anticipated levels of consumption in his country. The stocks of butter at the end of the first quarter of 1985 at 5,800 metric tons had been reduced to 3,500 metric tons by the end of the second quarter of 1985. They are expected to go down further when the usual price increase occurs in July and consumers react to it, thus bringing down the stocks to more reasonable levels.

12. The representative of Uruguay mentioned that operators in his country had found butter prices very depressed. Referring to his country's reply to Questionnaire 2, he noted that the average export price of butter in the fourth quarter of 1984 had been US\$1,376 per ton; however, this price which had been negotiated in the beginning of 1984 did not reflect the market situation at the end of the same year. He pointed out that the Resolution of 16 November 1984 had created an uncertainty in the market and reiterated that current butter prices in international trade were very depressed.

13. The representative of New Zealand said that prices of butter and anhydrous milk fat had stabilized over the past few months with the recent decline in value of the United States dollar. Current f.o.b. prices were in the range of US\$1,250-1,420 for butter and US\$1,470-1,650 for anhydrous milk fat. After the recent agreement on a derogation for the clearance of old butter, one could have expected a firming-up of milk fat prices in the the long run. However, as the lowering of the GATT minima had been accompanied by EEC's increased export restitutions, prices were expected to ease in the short term.

14. The representative of Japan informed that domestic production of butter amounted to 80,000 tons in the fiscal year 1984, which was almost the same as in the previous year. Prices were lower than in the previous year due to a stagnation in demand and ample stock levels.

15. The representative of Hungary said that butter production was 1.1 per cent lower in the first quarter of 1985 than in the corresponding period of last year. However, it would be premature to conclude that overall production in 1985 would be lower than in the previous year. Exports of butter amounted to 300 tons, while consumption was 6,300 tons during this period. Stocks at the end of March 1985 were 800 tons, and prices recorded averaged US\$1,401 per ton, franco-Hungarian border. He informed the Committee that his country had imported 920 tons of butter from Austria, deliveries being scheduled for the end of May 1985, at prices between US\$880 and US\$920 franco-Hungarian border.

16. The representative of Australia reported that production of butter and anhydrous milk fat during the July-March period of the current season was 1.3 per cent more than in the corresponding period of 1983-84. International market pressures for other products worked in such a way that any changes in total milk production were primarily reflected in changes in the production of other dairy products and during the current season they had led to an increase in butter production. The Australian Dairy Corporation had estimated that butter/butteroil production during 1984/85 season would be 1.6 per cent above the 1983/84 level. Total domestic consumption of butter/butteroil in 1984/85 was estimated to be marginally up on the previous season. In response to both stable prices and increased promotional activity, the retail table spread sales had increased in the current season. Export availability of butter was expected to be 74,350 tons, given objective closing stocks of 10,000 tons. It was expected that, as a result of continuing high international butter stocks and limited market prospects, prices of butter would remain depressed during 1985. International prices for butter were currently being quoted from US\$850/f.o.b. up to the previous GATT minimum price of US\$1,200/f.o.b. In reply to a comment by the representative of the EEC that the lower end of the price quoted at US\$850 was incredibly low for butter, the Australian representative pointed out that the price quote of US\$850 was an offer made by a non-participant to the Arrangement.

17. The representative of the EEC informed that public stocks of butter on 13 June 1985 were 960,435 tons, while private stocks stood at 72,116 tons. The refund for butter was being increased from ECU 125.25/100 kg. to ECU 173.33/100 kg. and the refund for anhydrous milk fat was being raised from ECU 180/100 kg. to ECU 233.77/100 kg. with effect from 19 June 1985. With those new refunds the Community operators could export butter at prices around US\$1,050 per ton/f.o.b. and anhydrous milk fat at prices ranging between US\$1,290 and US\$1,320 per ton/f.o.b. The representative further informed the Committee that EEC Regulation No. 2268/84 had been suspended and EEC Regulation No. 2278/84 had been revoked; chapter II of Regulation No. 2956/84 had already been revoked in December 1984. Those three

Regulations had allowed the sale of butter at reduced prices. Under Regulation No. 2268/84 the EEC had exported 151,000 tons of butter, including 130,500 tons to the USSR. Exports under Regulation No. 2278/84 had totalled some 3,100 tons. Under chapter II of Regulation No. 2956/84, 120,000 tons of butter had been exported by the EEC to the USSR, with completion of delivery scheduled for 30 June 1985. A total of 274,000 tons sold under those Regulations had comprised 250,000 tons purchased by the USSR and only 24,000 tons by other countries. Referring to document DPC/W/41/Add.1/Rev.2, which reported sales in the period 16 November 1984 to 31 May 1985, the EEC representative noted that other participants had sold between 105,000 and 160,000 tons of fresh butter at less than the minimum price. Of that amount some 35,000 tons had been sold to the USSR, while two thirds, i.e., approximately 70,000 tons had been delivered to the Middle East and North Africa. He further recalled that in accordance with the Council Decision of 31 May 1985 (DPC/20), the Resolution of 16 November 1984 had been revoked and no sales, other than those notified before 1 June 1985, could be concluded on the basis of that Resolution.

18. The delegate of New Zealand took the opportunity to express his disappointment at the recent increases in EEC's restitutions on butter, anhydrous milk fat, whole milk powder and Cheddar cheese, especially soon after the decision taken by the Protocol Committee to reduce International Dairy Arrangement minima. He was particularly concerned at the extent of the changes made to the restitutions, which brought Community prices on the international market for butter and anhydrous milk fat down to the newly established GATT minima, back to a situation which existed six months ago. He felt that there was no reason why the recent adjustment in the GATT minimum prices should have triggered a general reduction in actual international market prices. There was no point in such a reduction if it was to cost a great deal of money. It was anticipated that the decisions taken recently to deal with the pressure caused by excess stocks on the market, particularly of butter stocks, would help in a recovery of prices on the international market.

His country aimed at building positively on that opportunity and was seeking to stabilize and improve prices for mutual benefit. The pressures caused by excess supplies and stocks of butter and anhydrous milk fat were particularly severe on the international market. The recently agreed derogation to allow the Community to make a large-scale clearance sale of old stocks to the USSR opened the way for such pressures to be relieved. Further production restraint and internal disposal measures in the Community, together with the opportunity provided by the derogation, formed the basis for achieving improved market balance. Given those steps it was all the more important to avoid destructive price competition in export markets, particularly where over the past two years events had proved that lowering of prices of fresh butter would not result in any expansion of demand. New Zealand was committed to supporting the market and maintaining stability. The Community's move had, however, sent wrong signals to the market place, which would not result in any expansion of demand. He asked the EEC representative to explain how the Community could ensure strict observance of GATT International Dairy Arrangement minimum prices given the problem of currency fluctuations and the fact that EEC prices were once again close to the GATT minimum. They would like to seek assurances that GATT minima would be respected both in letter and spirit.

19. The representative of the EEC categorically denied that all its butter sales had been below the GATT minima. He recalled that the EEC had sold old butter to the USSR at prices below the minimum price and fresh butter at prices above the minimum price. Other participants had sold larger quantities of fresh butter to the markets of the Middle East and North Africa at prices much below the GATT minima. The EEC could simply not sell at a price higher than US\$1,050 because of the strong competition on the international market. Already the share of the EEC of the world butter market had suffered a decline from 64.5 per cent in 1980 to 50 per cent in 1984. Of the total 760,000 tons sold on the world market in 1984, the EEC accounted for only 50 per cent, including the food aid.

Adoption of report to the Council

20. In pursuance of Article XII:2(a) of the Arrangement and Rule 22 of the Rules of Procedure, the Committee adopted its report to the Council on the work of the current session; the report was later distributed as document DPC/F/37.

Information on deliveries under Resolution of 16 November 1984

21. The representative of Australia gave the following information on shipments of butter under the International Dairy Products Council Resolution of 16 November 1984. These sales were reported in April 1985.

	<u>Quantities</u> (kg.)	<u>Value</u> (Australian dollars)
Algeria	470,000	493,500
Iran	2,442,760	3,455,296
Morocco	1,575,000	1,653,750
Tunisia	999,005	1,096,456
USSR	7,000,000	9,094,995

Adjustment of minimum prices according to exchange rate fluctuations

22. A preliminary exchange of views took place on this subject at a joint meeting of the three Protocol Committees (see paragraphs 21-29 in the report of the Committee of the Protocol Regarding Certain Cheeses).

Date of next Session

23. In accordance with the preliminary time-table adopted at their twentieth session the Committees decided to hold their next regular sessions on 23 to 25 September 1985, subject to confirmation by the secretariat.