

GENERAL AGREEMENT ON TARIFFS AND TRADE

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International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

Twenty-Fifth Session

Draft Report

Introduction

1. The Committee of the Protocol Regarding Milk Fat held its twenty-fifth session on 18 March 1986.

Adoption of the agenda

2. The Committee adopted the following agenda:

1. Election of the Chairman and Vice-Chairman
2. Adoption of report on the twenty-fourth session
3. Information required by the Committee:
 - (a) Replies to Questionnaire 2
 - (b) Summary tables
 - (c) Other information
4. Sales under derogations
5. Review of the market situation for products covered by the Protocol
6. Problems facing butter trade

7. Adjustment of minimum prices according to exchange rate fluctuations
8. Oral report to the Council
9. Date of next session.

Adoption of report on the twenty-fourth session

3. The Committee adopted the report on its twenty-fourth session with some amendments from Argentina and Australia. This was distributed as document DPC/F/41.

Information required by the Committee

(a) Replies to Questionnaire 2

4. The Committee reviewed the replies to Questionnaire 2 and requested participants who had not communicated such information in respect of the fourth quarter of 1985 to do so without further delay. They were also requested to submit information regarding the first quarter of 1986 by 15 June at the latest.

(b) Summary tables

5. The Committee reviewed the summary tables based on information provided by participants in tables A and B of Questionnaire 2 in respect of milk fat. The Committee took note of document DPC/F/W/22, which would be revised taking account of more recent information submitted.

(c) Other information

6. The Committee took note of the statistical information which the secretariat had compiled on production, trade (including food aid), stocks and consumption of dairy products in the United States.

Sales under derogations

7. The Committee took note of the revised register of sales of butter and butteroil (DPC/W/50/Rev.3) under the Resolution of 16 November 1984 (DPC/13). In reply to a query the Australian delegate informed that window sales of butter to Algeria (2,512 tons) and to Iran (5,081 tons) had now been completed between January and March 1986. New Zealand informed that window sales notified in DPC/F/W/19/Add.1 still had to be finalized, and that sales to Algeria of a quantity of 8,000 tons at a price of US\$900 per ton/f.o.b. was in the process of being shipped. The deadline for such deliveries was 30 June 1986.

8. The Committee also took note of the fact that no sales had so far been reported under the Decision of 31 May 1985 (DPC/F/35). The representative of the Community informed that a Commission Regulation (EEC) No. 765/86 had been published on 15 March 1986 in the Official Journal (L/72, p.11) laying down detailed rules for the sale of butter from intervention stock for export to certain destinations. Tentatively, these destinations included the USSR, India and Pakistan, and the delivery date set for these destinations was not to go beyond 30 November 1986. The aforesaid Regulation provided the broad framework of rules and conditions for the sale of old butter at given prices. The closing date fixed for tendering with the intervention agency was to be 24 March 1986. After receiving the first bids, the Community would then fix the selling price. Obligations arising from the 31 May 1985 Decision under the International Dairy Arrangement would be fully taken into account.

Review of the market situation for products covered by the Protocol

9. The representative of Argentina indicated that butter stocks at the end of the third quarter of 1985 amounted to about 3,000 tons. Butter output also edged higher than the level in 1984, and while imports during 1985 added up to about 650 tons, exports were negligible. The consumption of butter was more or less the same as in 1984.

10. The delegate of Australia informed that butter and anhydrous milk fat output in the July-December period in the current year was 4.1 per cent below the corresponding period in the 1984/85 season, due mainly to increased production of cheese and whole milk powder. According to the Australian Dairy Commission estimates, 1985/86 output would be about 5.2 per cent below the 1984/85 output. Domestic sales of butter/butteroil were expected to increase marginally in 1985/86 from 61,741 tons in 1984/85 to 62,000 tons. Export availability was expected to be 65,000 tons given objective closing stocks of 10,000 tons.

11. The delegate of Bulgaria said that butter production during 1985 increased by some 8 per cent to a level of 26,000 tons. No imports or exports were made. Consumption of butter increased in 1985 in step with the increase in domestic production.

12. The representative of Japan reported that butter production (including AMF) in 1985 amounted to 89,000 tons, i.e., 16 per cent greater than in 1984. Domestic consumption at 81,000 tons was about 5 per cent higher than in 1984 and stocks were stable at last year's level of 24,000 tons. Imports of butter during 1985 came to only 1,700 tons as compared to 2,000 tons in 1984.

13. The representative of New Zealand informed that production of butter in 1985 was around 263,000 tons, as compared to 264,400 tons in 1984. Stocks at the end of 1984 were 91,000 tons, but had increased to 116,000 tons by the end of 1985. Exports of butter totalled 216,000 tons as compared to the level of 153,200 tons in 1984. The increase was mainly due to renewed shipments of butter to the Soviet Union. As regards anhydrous milk fat, he indicated that 1985 production at 24,200 tons was almost 21 per cent lower than the level in 1984. A further drop was expected in the 1985/86 season due to tight market conditions. Stocks at the end of 1985 at 9,000 tons were also lower compared to their level of 11,000 tons at the end of 1984. Exports showed a decline of 12 per cent, from 40,600 tons in 1984 to 36,000 tons in 1985, due mainly to intense competition on the world market. Average export price for butter and anhydrous milk fat, prior to the introduction by the EEC of a flexible refund system, had been slightly above the GATT minimum price levels.

14. Speaking more generally about the existing situation and outlook, the delegate of New Zealand found herself in agreement with the finding of the GATT secretariat report that it remained particularly bleak for butter and anhydrous milk fat. Stocks had continued to be very high at around 1.15 million tons despite the disposal sales and implementation of milk quotas by the European Community last year. The implications of the EC's recently introduced flexible refund system were disturbing especially when butter and anhydrous milk fat had already been trading just above the GATT minimum. While her country did not wish to make allegations of sales below the minimum prices, they would, nevertheless, wish to alert the Commission to the potential breaches of the minimum price by the EEC traders under the new scheme. Even though the Commission had assured that no such breaches of minimum prices would take place, it was however difficult to believe how this could be prevented. The EEC calculation of offer prices was based on the amount of special refunds available to traders. This calculation, however, failed to take into account the quantities of discounted butter already available for export within the Community. The danger of sales below the minimum was particularly strong for anhydrous milk fat. The 40,000-50,000 tons of butter still available from P.S.A. stocks might have to be sold at prices well below the intervention price for butter, due to the exclusion of P.S.A. butter from any of the Community's internal disposal schemes. Secondly, the recently introduced additional sixty-day delay in payment for intervention butter would in effect result in a delay of 180 days and a discount of around US\$150 per ton from the intervention price for butter. Thirdly, a significant quantity of anhydrous milk fat was being made from fresh cream. An allowance for making butteroil was not required and if given would allow the export price to be cut heavily and below the GATT minimum. By virtue of these possibilities, the EEC traders were in a position to offer anhydrous milk fat and butter for sale at prices substantially below the GATT minimum, i.e., by US\$100-\$200 per ton. The existence of this potential led to pressures on the International Dairy Arrangement. Her delegation had listened carefully to the assurances given by the EEC that obligations under the Arrangement would be fulfilled. The problems facing the international market for milk fats were not likely to be solved by attempts to force the EEC traders out of the market place.

The potential of sales of the magnitude required to obtain a significant clearance of the EEC stocks was, however, not there. The International Dairy Arrangement was faced with the same situation as last year, when close co-operation among the participants averted the imminent crisis. At that time, surpluses were disposed without disrupting the very limited international butter market in the form of a derogation from minimum price provisions under certain conditions. The EEC had obtained a new derogation in May last year to meet the present crisis and therefore it would be interesting to know to what extent they were able to dispose of their surpluses. The pressures facing international butter trade could be resolved not by petty skirmishes in certain limited markets but by closer co-operation among the International Dairy Arrangement participants.

15. The spokesman of the EEC was not willing to accept unsubstantiated allegations that offers at US\$150 below the intervention price had been made. Specifically in response to the Australian comment that the EEC had offered to sell butter to Morocco at prices between US\$1,030-\$1,047 per ton c.i.f. and butteroil to Singapore at a price of US\$1,150 per ton c.i.f., he observed that shipping costs to Morocco were comparatively lower for the EEC which could give it an edge over some other exporters. Also butter originating from certain non-EEC countries such as East Germany and Czechoslovakia was being exported by the EEC traders at prices below those of its own butter. In any case, he could not accept such allegations without the necessary supporting evidence in the form of invoices or telexes. In reply to another comment by New Zealand that there was a real danger of substitution between the EEC and non-EEC butter, he categorically denied any such possibility and expressed the view that the provisions of the International Dairy Arrangement applied if the manufacture or processing of butter took place in member countries customs territories.

16. The representative of Switzerland indicated that production of butter in 1985 was 3 per cent lower than in 1984. The decline had continued in 1986 as the level in the first two months compared to the corresponding two months of 1985 was also lower. Domestic consumption of butter in 1985 edged lower than in 1984, and the downtrend had continued in the first two months of 1986. Stocks at 4,050 tons at the end of 1985 were, however, lower than at the end of 1984 and were currently between 4,250-4,300 tons. Prices remained unchanged.

17. The delegate of Sweden reported that production of butter in 1985 was 11.6 per cent below the level in 1984 and in the current year was expected to aggregate 9 per cent lower. Domestic consumption of butter was 11 per cent lower than in the previous year, although the demand for butter mixtures had shown an upward trend. Exports at 13,300 tons in 1985 were 10 per cent lower than in 1984, and the downtrend was expected to continue in 1986. Average export price in March 1986 was around US\$1,162 per ton f.o.b. reference point.

18. The delegate of Norway indicated a 3 per cent drop in the production of butter in 1985 as compared to the level in 1984. Exports were, however, 30 per cent up on the level of 1984, and domestic consumption was also marginally above the previous years' level. Average export price had been just above the GATT minimum.

19. The representative of Finland stated that 1985 butter production at 71,600 tons was 10 per cent smaller than in 1984. Production in 1986 was expected to range between 70,000-72,000 tons. Domestic consumption, however, increased by 11 per cent to 60,000 tons. In 1986, it was likely to drop somewhat. Exports dropped from 23,000 tons in 1984 to 19,000 tons in 1985. Stocks at the end of 1985 were at the more comfortable level of 5,000 tons. Prices remained above the GATT minimum.

20. The representative of South Africa told the Committee that production of butter in 1985 was about 5 per cent higher than in 1984. Domestic consumption, however, at 13,393 tons in 1985 compared unfavourably with the 1984 figure of 16,261 tons. As a consequence, stocks at the end of 1985 doubled on the level of end 1984.

21. The spokesman of the Community said that production of butter during 1985 totalled some 1.9 million tons, i.e. 6.5 per cent less than in 1984. A further decline of about 3 per cent was anticipated for 1985/86. Exports of butter and butteroil at 385,000 tons constituted 49.4 per cent of the total world exports in 1985. This was in sharp contrast to 64.5 per cent share in 1980 when the EEC exported

593,000 tons of the total world exports of 920,000 tons. Consumption of butter was 11 per cent below the level of 1984. Stocks increased to 1.1 million tons by the end of 1985, compared to their level of 0.94 million tons at the end of 1984. The Community had to reduce the level of refunds twice in order to bring prices in line with the new minimum prices. The present level of refunds was ECU 181.5 for 100 kg. Replying to a comment by New Zealand that refunds were targeted according to markets he repeated that EEC refunds were designed to maintain EEC's share on the world market and were not intended to undercut its competitors. The United States posed a real threat to the world market with expected supplies of 100,000 tons of butter this year. Members of the IDA should rather address themselves to the implications of such huge supplies than to the size of the EEC refunds.

22. The observer of Canada informed that butter production in 1985 at 94,504 metric tons was about 12 per cent smaller than in 1984. It was not expected to change much during 1986. Domestic consumption had also tended to decline a little bit. The 1985 end-year stocks at 20,327 metric tons were down from 27,512 metric tons at end-September and 28,260 metric tons at the end of December 1984.

Problems facing butter trade

23. The Chairman recalled the limited but interesting exchange of views that took place in the Committee at its December meeting on the question of possible steps to resolve the critical situation facing the butter trade. The International Dairy Council, at its meeting in September 1985, had decided that the participants would provide detailed information on measures adopted to alleviate the current butter situation. A specific proposal to this effect had been circulated by Australia in documents DPC/W/52 and DPC/W/57, asking members to furnish details of measures in reply to Questionnaire 5 for ensuring observance of the International Dairy Arrangement minimum prices. Australia had also circulated a description of its own measures in this regard in its reply to Questionnaire 5. A draft decision proposed by Australia in this connexion had been circulated in document DPC/W/60. He enquired if members had any additional view or comments on this matter.

24. The Australian delegate reiterated that the question had become even more significant in the light of the new refund system adopted by the EEC. She would, therefore, insist on a thorough discussion of this matter in the Council and a decision regarding the future course of action.

25. The spokesman of the EEC considered that the Australian proposal was an outright insult since the policies followed by the Community had always been detailed in the Official Journal and information regarding prices and the mechanisms to implement those prices had been clearly spelled out in various documents. In fact, more transparency was now required from other members of the IDA who kept such information camouflaged in their official files. The Community had always respected its commitments under the Arrangement and had furnished full information on its policies. Article 3.1 covered that undertaking which the EEC met in its entirety.

26. The representative of Argentina expressed his surprise at the EEC's comment and said that a clear commitment under the Arrangement could not be regarded as an insult to anyone. The Australian proposal was in the right direction and members were obligated to provide as complete information as possible on their price levels and other dairy policies.

27. The representative of the Nordic countries observed that an increase in uncertainty and suspicion regarding each others' obligations was undermining the credibility of the Arrangement. It was not really necessary to underline the commitments which were already crystal clear under the existing provisions of the Arrangement. A full description of measures followed by Nordic countries was in any case provided in their respective replies.

28. Concluding the discussion on this subject the Chairman noted that the question was likely to figure on the agenda of the Council and therefore members would have another opportunity to address themselves to it. The discussions in the Committee had clearly shown a divergence in views and it was obvious that participants needed more time to reflect upon this matter.

Adjustment of minimum prices according to exchange rate fluctuations

29. In resuming the discussion on the question of the adjustment of minimum prices according to exchange rate fluctuations at the joint meeting of the Protocol Committees, the Chairman recalled that this question had been on the agenda since March 1985. The Australian paper DPC/W/46 and Add.1 had provided the general framework of discussions. While some members had opposed the adoption of automatic or semi-automatic mechanisms required for such adjustments, others considered that a periodic review of minimum prices in the light of exchange rate fluctuations was essential. Even though it was recognized that the problem was under discussion in several other fora in the context of a general arrangement concerning the reference currency that could be adopted for all commodity sectors, some members felt the need to make more explicit the implicit undertaking under Article 3.3 of each of the Protocols that exchange rate movements would be taken into account whenever the level of minimum prices was reviewed. A text proposed by New Zealand for a draft decision was also discussed (Spec(85)63). So far no convergence of views had, however, appeared. He invited members to take a final decision on this important question.

30. After a brief discussion, the participants agreed that fluctuations in the exchange rate of the United States dollar had always been taken into consideration hitherto when changes had been made in the minimum export prices. Consequently, the Committees saw no need to take their discussion on that subject any further, on the understanding that any participant might raise the matter again if it was considered appropriate.

Report to the Council

31. The Committee agreed that an oral report on its discussions at the current session would be presented to the Council.

Date of next session

32. The next session of the Committees will be held on 16-17 June 1986, subject to confirmation by the secretariat. The session of the Protocol Committee Regarding Certain Cheeses will be followed by the session of the Protocol Committee Regarding Certain Milk Powders and then the Protocol Committee Regarding Milk Fat.