

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

DPC/F/47  
23 March 1987

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## International Dairy Arrangement

### COMMITTEE OF I.F. PROTOCOL REGARDING MILK FAT

#### Twenty-Eighth Session

#### Report

#### Introduction

1. The Committee of the Protocol Regarding Milk Fat held its twenty-eighth session on 15 December 1986.

#### Adoption of the agenda

2. The Committee adopted the following agenda:
  - A. Adoption of report on the twenty-seventh session
  - B. Information required by the Committee:
    - (i) Replies to Questionnaire 2
    - (ii) Summary tables
    - (iii) Other information
  - C. Sales under derogations
  - D. Review of the market situation for products covered by the Protocol
  - E. Adoption of report to the Council
  - F. Date of the next session

#### Adoption of report on the twenty-seventh session

3. The Committee adopted the report on its twenty-seventh session, as amended. This was distributed as document DPC/F/45.

#### Information required by the Committee

- (i) 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 third quarter of 1986 to do so without further delay. They were also requested to submit information regarding the third quarter of 1986 by 13 March at the latest.

(ii) Summary tables

5. The Committee reviewed the summary tables based on information provided by participants up to the third quarter of 1986, which was issued in document DPC/F/W/22/Rev.3. It also took note of information up to June 1986 incorporated in the seventh annual report on the world market for dairy products.

(iii) 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. Data related to the third quarter of 1986 and also forecasts for the fourth quarter.

7. The Committee also took note of document DPC/W/63 prepared by the secretariat at the request of the participants on the United States Export Sales of Dairy Products under Section 1163 of the Food Security Act of 1985. No new information had been received since the distribution of this document.

Sales under derogations

8. It was recalled that, at the Committee's previous meeting, the EC had confirmed two sales of 10,000 and 8,000 tons of butter to the USSR out of a total option of 50,000 tons (DPC/F/W/23/Add.1). It was also recalled that New Zealand had indicated (DPC/F/W/25 and Add.1) that it intended to sell 50,000 tons of butteroil to Brazil under Article 7:1 of the Protocol during a 15-month period from October 1986 to December 1987 at a price of US\$550 per ton C and F.

9. The spokesman of the EC informed the Committee that, in addition to the sales already notified at the previous meeting, the Community wished to notify the sale of 7,200 tons of butter on 11 November 1986 on the same conditions out of the 50,000 tons of butter on which USSR had an option (DPC/F/W/23/Add.1). In reply to a question from Australia concerning the possibility of a further sale by the Community to the USSR under the present derogation, the spokesman of the EC recalled that, although that derogation would expire on 31 December 1986, it provided for delivery times of fifteen to eighteen months in respect of any sale effected before that date. Although his delegation did not have specific information about an eventual conclusion of sales contracts by an operator at the present time, the Commission had established the necessary procedures in that respect.

10. With regard to the question by Australia as to the likelihood of any further sales made under the derogation, the representative of New Zealand noted that any obligations under the derogation related to each specific operation undertaken under the derogation. Referring to the notification made by his country (DPC/F/W/25 and Add.1) he confirmed the sale of 50,000 tons of butteroil to Brazil and added that shipments were carried out according to the notified schedule. He hoped to furnish more detailed information at the next meeting of the Committee.

11. The representative of Finland on behalf of the Nordic countries stated that the Nordic countries had followed recent developments in the international market for butter with particular concern. The market situation had continued to aggravate, and it had turned out to be extremely difficult, in certain markets practically impossible, to get contracts at the present minimum price. Various factors, including sales of countries outside of this Arrangement and the use of the derogation, had contributed to the negative trends in the market. The basic reason behind the present crisis in the international butter market was evidently the longstanding imbalance of supply and demand. It could only be alleviated by effective measures in order to curb surplus production globally, notably in the major producing countries. The Nordic countries had already for some years accepted this reality. The Nordic countries had initiated programmes in order to cut their own production, thereby reducing their exports, but this was hardly sufficient. If a limited number of minor exporters took measures in the right direction, the result tended to become the immediate takeover of their market shares by others, whose surplus production continued uninhibited. The Nordic countries had accepted the derogation for old butter with the expectation that this derogation would help to overcome a temporary marketing problem, thereby leading to a reduction in the stocks of certain major exporters. The Nordic countries had thought that the pressure of these stocks against the price of butter in the international market would have gradually lessened. What had happened in reality had been rather the opposite: stocks had continued to grow, and at the same time international supplies of the old butter at strikingly low prices had saturated the market to the extent that sales of fresh butter had nearly ceased. The prices which importing countries seemed to be prepared to pay for Nordic countries' fresh butter had now for some time been well below the minimum price. The Nordic countries were now facing a situation, where it was possible that practically no new sales could be effectuated in the course of 1987. Even if production control programmes of the Nordic countries had led to a certain reduction in the production of butter, the Nordic countries still had surpluses, though small in the global scale but which were not insignificant, measured against the limited volume of the domestic markets and stocking facilities. The Nordic countries considered that they had taken a fair and equitable share in stockpiling but they regarded it as unacceptable to have to stock the totality of their annual surplus next year. The purpose of the International Dairy Arrangement and the Protocol on Milk Fat and the derogation granted had certainly not been to cut traditional trade flows of butter. In the case of the Nordic countries this seemed nevertheless to be the result of following the present minimum price in the present market situation. Considering the alternatives for the future, the Nordic countries were very much in favour of making the Protocol on Milk Fat effectively operative again, without derogations and with sufficient certainty that all parties would respect the minimum price in their future export operations. If this did not work, the Nordic countries would have to draw the conclusion that the present minimum price was unrealistic in the present circumstances. If this had been the case, the Nordic countries would have to consider whether to modify the minimum price or suspend its application temporarily or request a derogation meeting their minimum needs next year. The Nordic countries had understood that there was a general willingness not to prolong the derogation and to gradually cease sales

under derogation and that all parties seemingly were willing to follow the minimum price in all their butter exports in the near future. On this basis, the Nordic countries would be prepared to go along with the idea of sticking to the minimum price still for some time in the next few months. The Nordic countries would draw their conclusions as to what needed to be done later in 1987 in the light of developments before the March meeting of the Committee. The Nordic countries would of course prefer a situation, where the minimum price could be held, but they were not prepared to be the only ones excluded from the international market, if major sales below the minimum price still emerged from other sources. The Nordic countries shall revert to the matter in March, hopefully in a more optimistic tone than in the present meeting.

12. The spokesman of the EC, noting that the spokesman for the Nordic countries had referred to possible sales in the near future, asked him whether he had been referring to sales which could still take place in 1987 under the present derogation or to a possible renewal of the present derogation after 1 January 1987.

13. The spokesman for the Nordic countries replied that if sales of big volumes of butter at very low prices still continued to saturate the market in 1987 as a consequence of the present derogation, sales of fresh butter at the minimum price would become impossible. Nobody could reasonably expect that the Nordic countries cease completely their exports for one year.

14. The representative of New Zealand thanked the spokesman for the Nordic countries for his statement. The warning that he had issued as to the difficulties faced by the Nordic countries was timely. It was hoped that the Committee would have a somewhat more optimistic view in March. Nobody could underestimate the size of the problem and the pressures exerted on this particular market. Like the Nordic countries, New Zealand of course joined in with the overall hope that prices could be maintained at the GATT minimum. His delegation hoped that New Zealand too could effect its normal commercial sales of butter and anhydrous milk fat at the GATT minimum level. Otherwise the stock situation which his country had been fortunately able to relieve significantly earlier this year would again become a problem. He concluded by reiterating that his country did understand the difficulties faced by the Nordic countries and that New Zealand too had problems in making sales at the moment.

15. The representative of Australia said that her delegation shared the reservations expressed by the Nordic countries with the impact of derogations to discount butter on the world market with no follow-up in terms of a reasonable reduction in stocks. She pointed out that the USSR was currently showing no interest at all in buying fresh butter except at low prices around US\$700 a ton effectively prohibiting IDA participants to export fresh butter to that country.

16. The Committee noted that, in accordance with the provisions of paragraph 6 of the Decision adopted on 31 May 1985 (DPC/F/35), the relevant derogation under Article 7:1 of the Protocol would expire on 31 December 1986.

Review of the market situation for products covered by the Protocol

17. The representative of Australia informed that butter and anhydrous milk fat (AMF) production in the July-September quarter 1986 of 22,100 tons was 9.3 per cent below production in the corresponding period in 1985 of 23,100 tons. This decrease was mainly due to the increased production of non-Cheddar cheese and whole milk powder. Butter/AMF production for 1986/87 was estimated at 98,000 tons, 5.9 per cent below the previous year's production. Domestic consumption of butter/AMF was expected to increase marginally in 1986/87 to 60,000 tons from 59,600 tons in 1985/86. Exports for 1986/87 were expected to be 38,000 tons, leaving closing stocks of around 20,000 tons as compared to actual exports in 1985/86 of 54,400 tons. The fall reflected producers' decisions to divert production out of the over-supplied butter/skimmed milk powder sector to cheese and whole milk powder. With regard to the world situation, Australia remained pessimistic about market outlook until stocks could be run down mainly through production restraint, given continued weak international demand. Continuing high international butter stocks in addition to limited demand would ensure butter/AMF prices remaining depressed during 1986/87. Australian-sourced butter and AMF were currently priced off their respective GATT minimum levels of US\$1,000 and US\$1,200 per ton. Prospects of a further large sale of butter by the EC to the USSR under the derogation arrangements were adversely affecting opportunities for other sellers to engage in useful commercial negotiations, particularly since the USSR was quoting prices of about US\$700 per ton f.o.b., well under the GATT minimum. Persistent rumours of AMF being offered in Asian markets at prices well below the GATT minimum of US\$1,200/ton were contributing to the pessimistic price outlook.

18. The representative of Switzerland said that butter production in the first three quarters of 1986 had declined slightly (by 1,200 tons) in comparison with the corresponding period of 1985. Production in the third quarter of 1986 had amounted to 9,000 tons and it was anticipated that production during the fourth quarter would continue at that level. It was considered that butter production in 1987 would not change very much in comparison with 1986. Imports during the first three quarters of 1986 had amounted to 5,100 tons as against 3,000 tons in the corresponding period of 1985. During the third quarter of 1986 imports had been 1,400 tons, and it was anticipated that some 2,700 tons would be imported during the last quarter of 1986. It was estimated that butter imports in 1987 would be the same as, if not higher than, those of 1986. Butter consumption during the first three quarters of 1986 had remained relatively stable, amounting to 29,300 tons as against 29,700 tons during the corresponding period of 1985. It was expected that consumption would remain stable or decline slightly. Butter stocks amounted to 5,300 tons at the end of September 1986, after which they had declined slightly. Consumer prices had risen in the summer of 1986 owing to an increase in the base price of milk. As regards butteroil, production during the first three quarters of 1986 had amounted to 2,700 tons as against 2,300 tons during the corresponding period of 1985. Imports were minimal. Consumption during the first three quarters of 1986 had risen slightly and had amounted to 2,600 tons as against 2,400 tons during the corresponding period of 1985.

19. The representative of Sweden said that production of butter was slowing down in recent years. It was estimated that production in 1986 would decrease to 36,000 tons as compared to 42,500 tons in 1985. A further reduction (by 1,000 tons) was expected for 1987. Exports of butter had averaged 13,000 to 15,000 tons in the period 1982-1985. However, exports had declined to 9,000 tons in 1986. It was anticipated that they would reach some 9,000 tons in 1987 or even decrease further. Domestic consumption was stable and stocks were at normal levels. Referring to the common statement made by the spokesman of the Nordic countries, he said that Sweden was presently facing difficulties in export markets and was concerned with regard to exports in the future.

20. The representative of Norway said that production and consumption of butter had respectively decreased by 6 per cent and 5 per cent during the first three quarters of 1986. During the same period, exports had increased to 3,700 tons as compared to 2,900 tons in the corresponding period of 1985. This increase in exports was due to the abnormally high stocks in the beginning of 1986. It was estimated that for this reason exports for the whole year of 1986 would be higher than those of the preceding year.

21. The representative of Finland estimated that production of butter would show a slight decrease in 1986 to the level of 71,000 tons. Consumption which was following a downward trend was estimated to decrease to 53,000 tons. Therefore, export availability for 1986 was 18,000 tons. Stocks of butter as of November 1986 had increased to 18,800 tons as compared to 15,000 tons as of November 1985. The reason for this increase had been discussed by the spokesman of the Nordic countries in his common statement to the Committee. Export prices of butter in the third quarter of 1986 were US\$1,174 per ton f.o.b.

22. The representative of South Africa said that the major point to note in the milk fats sector was the result of a domestic promotion campaign to sell off butter stocks at reduced prices. Third quarter consumption of butter at 6,000 tons had been twice that usually recorded in one quarter and the result had been a decrease in stocks from a level of 9,500 tons to 6,250 tons.

23. The representative of Poland said that production of butter was slowing down. Consumption remained unchanged and stocks were at lowest levels. It was estimated that imports would increase substantially in 1986 and that this trend would prevail at least during the first quarter of 1987. In reply to a question on the future import demand of Poland, he said that his authorities intended to keep consumption at the same levels of 1985 and 1986.

24. The representative of New Zealand estimated that butter production in the 1986/87 season would decrease by some 25,000 tons to 225,000 tons. The sale of 50,000 tons of butteroil to Brazil under derogation had largely removed excess inventories of old stocks. The reduced milk flow should ensure balanced stock position by the end of the 1986/87 season, provided that anticipated butter sales specially to the USSR and Iran were achieved. Consumption had remained stable at around 39,000-40,000 tons a year; it was expected that it would continue to remain stable. International trade

of butter and anhydrous milk fat remained dominated by the EC and New Zealand which accounted for 80 per cent of total exports. Surplus stocks were still excessive, their disposal should be managed and the market had to recover. He recalled that in conformity with provisions of the Food Security Act of 1985, the United States shall sell for export not less than 100,000 tons of butter in each of the fiscal years of 1986, 1987 and 1988. However, the United States had not been successful in negotiating butter sales in commercial markets and the targets fixed for butter exports had not been attained in fiscal year 1986. Moreover, the United States' stock position was tight. He recalled also that the commercial market of butter was small with 400,000 tons of exports a year of which half going to the USSR and the other half to other markets dominated by Iran, Algeria and some Middle Eastern destinations. Commercial trade in anhydrous milk fat fluctuated between 140,000 and 150,000 tons a year and this market was also quite small. He concluded by saying that prices of butter and anhydrous milk fat remained very low and stocks of butter remained excessive.

25. The representative of Japan said that butter production during the fiscal year 1985 at 91,000 tons was 13 per cent above the level of 1984. There was a slowdown in butter production in the fiscal year 1986 with output in September 1986 running 8.5 per cent lower than in the same month of 1985. Stocks were, however, still at a high level. Imports of butter in 1985 were at the same level as in the previous year. Imports during the first nine months of 1986 were 11.5 per cent below the level of the corresponding period of 1985 due to the large stocks. Average import price in 1985 was reckoned at US\$1,615 per ton c.i.f. In more recent months average prices paid were US\$1,400 per ton c.i.f.

26. The representative of the EC estimated that butter production would increase by 6 per cent in 1986 to the level of 2.15 million tons. However, it was anticipated that production would decline by some 4.5 per cent in 1987 receding to the same level as in 1984. Consumption of butter would increase by 2 per cent in 1986 as compared to 1985. He recalled that the EC was continuing its policy to encourage butter consumption with a view to reducing stocks. Thus, the EC was making very expensive efforts in order to dispose of its stocks in the internal market and trying not to disturb the international market. The Community was again not doing well in regard to exports of butter and butteroil. In the first nine months of 1986 exports of butter had declined by 43 per cent as compared to the corresponding period of 1985. The world butter market was too small and the situation was extremely difficult. Similarly, exports of butteroil had fallen by 31 per cent during the same period. The situation, however, was a little better with regard to stocks, which on 27 November 1986 were at 1,264,000 tons in the public sector and 114,000 tons in the private sector, giving a total of 1,378,000 tons. It was estimated that some 600,000 tons could be deemed to be older than 18 months, of which a great part was quite deteriorated butter. As regards prices in international trade, they were reckoned to be slightly above the minimum price for butteroil and between US\$1,040 and US\$1,140 per ton f.o.b. for butter. In order not to come too close to the minimum export prices, refunds for butter and for butteroil had been recently reduced. He reiterated that the export performance of the EC had not been encouraging. The share of the EC in total world

exports had been 63 per cent in 1980, then fell to 48 per cent in 1983, to 45 per cent in 1985 and probably decreased further in 1986. At the same time, other exporting countries had increased substantially their market share. For example, while the exports of the United States had been nil in 1980, this country had passed to 5 per cent of market share in 1983-1985.

27. In reply to questions from Australia about forecasts of the level of stocks at the beginning of the next dairy year and rumours concerning the possible destruction of some of the oldest stocks, the spokesman of the EC said that stocks on 1 April 1987 could show a decline of some 100,000 tons; that, however, would depend on whether certain sales took place. As regards the rumour that part of such stocks was to be destroyed, it did not seem that that possibility was being envisaged or was feasible at the present time. Action of that kind would have a very negative impact in many respects, and consequently not too much importance should be attached to the rumour.

28. The observer from the OECD said that, according to estimates, butter production in the United States could decline by 5 per cent in 1986 to 544,000 tons. As in the case of milk, butter production had declined considerably during the second half of 1986; according to estimates it had dropped by 16 per cent and 20 per cent respectively during the third and fourth quarters of 1986. A further decline of about 20 per cent was anticipated in the first quarter of 1987. Exports between January and June 1986 had declined to 12,300 tons as against 25,200 tons during the corresponding period of 1985. It was expected that stocks at the end of December 1986 would amount to 111,000 tons compared with 98,000 tons at the end of December 1985.

#### Adoption of report to the Council

29. In accordance with Article VII:2 of the Arrangement and Rule 22 of the Rules of Procedure, the Committee adopted its report to the Council. This was distributed in document DPC/F/46.

#### Date of the next session

30. The next sessions of the Committees will be held on 16-17 March 1987, subject to confirmation by the secretariat. The session of the Committee of the Protocol Regarding Certain Cheeses will be followed by the session of the Committee of the Protocol Regarding Certain Milk Powders and then the Committee of the Protocol Regarding Milk Fat.