

GENERAL AGREEMENT ON

RESTRICTED

DPC/F/W/38

25 October 1988

TARIFFS AND TRADE

Special Distribution

International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

Some Comments Made at a Special Meeting on 12 July 1988

Note by the Secretariat

1. Following the request made by the European Community, the Protocol Committee Regarding Milk Fat held a special restricted meeting on 12 July 1988, to consider the EC's intended sale of 100,000 tons of old butter to the Soviet Union at a price below the minimum price in conformity with Article 7:1 of the Protocol. Some of the comments made in relation to the request and the Decision subsequently adopted are reflected in this note. This document is being issued in response to the requests made at the September meeting of the Committee.
2. The representative of the European Economic Community recalled the circumstances which contributed to a deterioration in the world butter market. Butter stocks totalling 1.6 million tons some 18 months ago, weighed heavily on the world market and resulted in a price depression. The EC took unprecedented measures to reduce the stockpile and to impart stability to the international butter market. A huge sum of ECU 3.2 billion was spent to liquidate these stocks in parallel with measures to reduce milk production substantially. All these efforts were crowned with success and stocks were reduced to the current normal level of 350,000 tons. Prices of butter were also stabilized. Unfortunately, however, the EC still had some old butter left in its stockpiles which could not be sold in normal market conditions. The only possibility of selling this butter was to the USSR, which was one of the largest markets in the world. Furthermore, exports of old butter to this non-traditional market were not likely to damage exports of fresh butter by other traditional exporters. The EC's request for a derogation, in conformity with Article 7:1 of the Protocol, was based on these considerations. It was not seeking a general open-door derogation, but a specific one to sell a certain quantity to a certain market and within a certain specified period. A specific quantity of 100,000 tons of old butter at a price of ECU 21-23/100 kgs. was to be exported by the end of the year.
3. The representative of New Zealand, while joining the consensus, stated that the USSR was the second largest export market and of vital interest to his country. He was inclined to accept the EC's request for such a derogation because the international dairy community until recently had been in a very deep hole and had just begun to climb out of it with a lot

of difficulties. The decision to go down this route had been taken some years ago and it had worked successfully. There was no alternative way of doing this. He believed that such a sale would be the final step in this process since there was no more butter left in stocks. Moreover, the path that the EC had followed in its destocking policies had been conducive to an improvement in the world butter market. The current butter prices were so low that even the efficient producers of his country could not make a living out of its production and producers in other countries had to be subsidized to remain in business. The butter market had so far not responded to the underlying improvements that had already taken place as a result of destocking. However, his authorities took the view that if butter stocks diminished further and production of fresh butter declined, the prices would respond and the market conditions would improve. A decision by the Committee in favour of this derogation would be a message to the market that there was no overhang and butter supplies were reduced.

4. The representative of Australia concurred with the derogation on the understanding that the leakage of butter to other destinations would be prevented and details about the shipments and deliveries would be duly notified. The EC would also provide an assurance that it would not use a reduced butter stock situation as a reason to relax its production disciplines or to increase its milk quotas.

5. The representative of Finland, on behalf of the Nordic countries, could go along with the consensus provided the EC was prepared to give the assurance that exports from the traditional exporters to this market were not damaged and that all shipments were completed as soon as possible, and in any case, not later than 31 December 1988. Like New Zealand, he hoped that it would be the final step in improving the market situation. He, however, took the view that developments in consumption were just as important as developments in production and the current signs were not too encouraging. In view of the current expectations, a possible increase in butter minimum prices in September therefore seemed to be difficult. Such a decision could be more pertinently taken by the end of the year when the market situation would have reasonably improved.

6. The representative of Uruguay expressed surprise at the EC's request for a derogation which in the past had caused considerable damage to butter exports from his country. After all the statements the EC had made to reintegrate itself into the international milk producers association and that the USSR could not receive any special treatment being outside the International Dairy Arrangement, the EC was requesting once again a derogation from the minimum prices. His country was directly affected by such derogations and the Committee was fully aware of its position. Last month when a delegation from his country was sent to sell butter to the USSR, they were told that our prices were too high and the situation might become favourable after October-November when they would have obtained EC butter at low prices. Our sales to that market were therefore adversely affected by the EC's sale of low-quality butter. The EC first adopted the expansionist policies to increase production and stocks, and then took another set of expensive policies to reduce those stocks to the detriment

of other butter suppliers. His country was a traditional supplier to this market, but had not sold any butter to it since 1985. While he agreed with New Zealand that this derogation would help in liquidating the existing stocks and improving the market conditions, he was reluctant to go along with the general consensus. He would like to see an end to this type of derogation so that other members of the Arrangement could also benefit from it. He would therefore not support the consensus, but would not formally object to the granting of the derogation.

7. The representative of Argentina also disapproved of the EC's request for a derogation on the ground that the sale would be below the minimum price provided for under the Arrangement. He felt that the EC should change its agricultural policies in respect of disposal of surplus stocks on the world market. This would be the last time his country would agree to any derogation under the present Arrangement. He would not join the consensus, but would not block the Decision adopted by the Committee.

8. The Committee took note of the comments made and concluded that there was a consensus with regard to the granting of a derogation to the EC as requested. The text of the Decision of the Committee was issued in document DPC/F/58, dated 12 July 1988.