

RESTRICTED

# GENERAL AGREEMENT ON TARIFFS AND TRADE

DPC/F/5  
8 January 1981

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## International Dairy Arrangement

### COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

#### THIRD SESSION

##### Report

###### Introduction

1. The Committee of the Protocol Regarding Milk Fat held its third session on 25 and 26 September 1980.

###### Adoption of the agenda

2. The Committee adopted the following draft agenda:

1. Adoption of the agenda
2. Adoption of report on the second session
3. Information required by the Committee:
  - (a) Replies to Questionnaire 2
  - (b) Summary tables
  - (c) Other information
4. Review of the market situation for products covered by the Protocol
5. Review of the level of the minimum prices for products covered by the Protocol
6. Other business.

###### Adoption of report on the second session

3. The Committee adopted the report on its second session. The report will be circulated as document DPC/F/3.

###### 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 1980 to do so without delay. In addition, it was pointed out that the replies to Questionnaire 2 relating to the third quarter of 1980 should reach the secretariat not later than 15 December 1980.

5. The representative of New Zealand said that in his country's replies to the questionnaires the figures communicated in respect of stocks concerned exportable commercial stocks. It might be useful if other participants could indicate the nature of their dairy stocks when replying to questionnaires. Variations in the level of stocks were an important element for evaluating the situation in and outlook for the world market for dairy products. In an endeavour to make the questionnaires and the summary tables more useful, the participants could provide more information concerning the stock figures communicated to the secretariat.

6. Several participants supported the proposal made by the New Zealand representative. One participant pointed out that if the Committee were to request too many details and particulars it would be very difficult to reply fully to the questionnaires.

(b) Summary tables

7. The Committee was informed that in accordance with Rule 28 of the Rules of Procedure the secretariat had prepared, summary tables incorporating the data provided in Table A of questionnaire 2 in respect of anhydrous milk fat and butter. The Committee had before it a document containing revised summary tables (DPC/F/W/1/Rev.2). The Committee took note of that document.

(c) Other information

8. The Committee took note of the remarks made concerning the need to improve information regarding food aid in respect of products covered by the Protocol.

Review of the market situation for products covered by the Protocol

9. The representative of New Zealand said that during the past year there had been a welcome improvement in the market for milk fat products. There had been strong demand for butter from the Soviet Union and Eastern Europe in 1979 and trends in import demand so far in 1980 suggested that that region's import requirements would remain substantial in the short term. Reductions in EEC stocks and export restitutions had helped to move market price for butter to range US\$1,600 to 1,800 per metric ton as compared with US\$1,100 to 1,300 per metric ton same time last year. His delegation's outlook was coloured by some uncertainty about actions by some other major exporters, but in general his delegation expected the market to continue to firm and prices therefore might well improve still further. Likewise, anhydrous milk fat market prices had moved well above year earlier levels. There was some

concern that the current high prices could encourage milk reconstitution plants to switch to cheaper vegetable oils substitutes. Market prices were currently in the range of US\$2,000 to 2,300 per metric ton. Considering all that, prices could be expected to remain firm.

10. The representative of the United States said that the continuing increase in milk production in the first half of 1980 had been reflected in butter output which had also risen in that period. Stocks of butter had increased very substantially, reaching 131,000 tons at 1 July 1980, as against 81,000 tons at the beginning of the year. Sales of butter had dropped substantially in the first months of 1980. An increase in unemployment, a reduction in consumer purchasing power were among the factors which had contributed to the decline in butter sales.

11. The representative of Australia said that the decline in milk production had caused a sharp reduction in output of butter and skimmed milk powder. In the first six months of 1980 his country's butter production had declined considerably, to 20,000 tons as compared with some 27,000 tons in the corresponding period of 1979. The continuing decline in milk production had also affected the quantities available for export. The downward trend in butter exports was continuing and for the current 1980/81 season they were expected to drop back to around 13,000 tons. According to some estimates, domestic consumption of butter in Australia was currently rising. Stocks at the end of June 1980, at around 5,700 tons, were down to minimal proportions.

12. The representative of the EEC said that according to some estimates, butter production in the first eight months of 1980 had declined by about 1.9 per cent in comparison with the corresponding period of 1979. The forecast was that for the year 1980 as a whole, butter production would probably show a marginal increase of the order of 0.3 per cent in relation to 1979. Public and private stocks of butter had stood at approximately 400,000 tons at 11 September 1980, i.e. 200,000 tons below the level recorded in mid-September of the preceding year (approximately 600,000 tons). With respect to sales to third countries, the export situation in 1980 could be considered satisfactory in general. Butter exports in 1980 were expected to be considerably above the level of 302,000 tons recorded in 1979.

13. The representative of Switzerland said that butter production had increased by about 6 per cent in the first six months of 1980 but a decline had been forecast for the second half of the year. Imports of butter in the first half of 1980 totalled approximately 4,000 tons, as against 3,000 tons in the corresponding period of 1979. Imports could be expected to reach 3,000 tons in the autumn and several thousand tons in the course of the winter.

14. The representative of Canada said that in the first six months of 1980 production of creamery butter had risen by 6 per cent and over the same period domestic consumption of butter had increased by 7 per cent. Butter stocks had been at the level of 24,200 tons at 1 August 1980, i.e. 26 per cent below the level at 1 August 1979. Canadian consumption of the principal dairy products had risen in the first half of 1980 in comparison with the corresponding period of 1979.

15. The representative of Hungary said that butter production had increased in the first half of 1980. A part of the increased production had been sold for home consumption. Exports had also risen over the same period, reaching 3,300 tons, as against 200 tons exported in the first six months of 1979. Total exports of butter in 1980 were expected to reach 5,000 to 6,000 tons.

16. The representative of Norway said that butter consumption had been increasing in his country in the past two years and the rate of increase in the current year was expected to be around 6 per cent.

17. The representative of Sweden said that butter consumption had increased in the first six months of the year and the growth rate of butter sales in the domestic market had exceeded estimates. He expressed the view that the downward trend recorded in Sweden's butter exports in the first half of 1980 might continue in the remainder of the year.

18. The representative of Finland said that butter exports had declined in the first half of 1980 in relation to the corresponding six months of 1979. Taking into account a possible decline in butter production by 1 per cent, exports might drop back to around 14,000 tons in 1980 as against 19,000 tons in 1979.

19. The representative of Bulgaria said that both production and consumption of butter had increased appreciably in his country, to reach 10,500 tons and 9,800 tons respectively in the first quarter of 1980. Butter production for the year as a whole was expected to be in the region of 21,000 tons.

20. Referring to competition of vegetable oils with milk fat, the representative of Australia noted that an increase could be expected in vegetable oil prices. No doubt prices of milk fat had continued to strengthen, but a parallel movement might develop in the market for substitute products.

21. The representative of the EEC noted that the average price of certain vegetable oils in competition with milk fat had recently dropped back slightly. Nevertheless, in the view of his delegation the Committee should take account of an important element in respect of competition between vegetable oils and milk fat, namely increment value. Thus, a product made with milk fat could be sold at a much higher price than a product made with vegetable oil. Furthermore, too many elements were involved to allow a comparison of competitiveness between vegetable oils and milk fat; one such element was legislation that could encourage use of one kind of fat rather than another.

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

22. In terms of Article 3:3 of the Protocol, the Committee reviewed the level of the minimum prices for products covered by the Protocol.

23. The Committee decided, under Article 3:3 of the Protocol Regarding Milk Fat, that the level of the minimum prices specified in that Article would be modified to US\$1,200 per metric ton for anhydrous milk fat and US\$1,000 per metric ton for butter. The schedule of price differentials according to milk fat content set forth in Annex IIb to the Protocol Regarding Milk Fat was consequently modified. It was agreed that the decision would take effect at noon on 1 October 1980.

24. The Committee agreed that the decision would be recorded in the report and would be the subject of a procès-verbal signed by the Director-General of the CONTRACTING PARTIES to the General Agreement, certifying the entry into force of the new minimum prices.

25. The representative of Argentina said that his delegation had hoped for new minimum prices higher than those on which a consensus had been reached. While his delegation had not opposed the consensus, it was not entirely satisfied. The matter would need to be examined afresh in the near future if circumstances so required.

26. The representative of the United States said that his delegation, in accepting the new minimum prices, wished at the same time to express its opinion on the justification for minimum prices, which it considered to be safeguard prices. They should not be considered as being international support prices, nor should they be subject to any automatic indexation or increase. Lastly, his delegation considered that agreed minimum prices reflected the concept of a safeguard.

Other business

Report to the Council

27. The Committee requested its Chairman to make an oral report to the Council at the latter's next meeting.

Date of the next session

28. The Committee decided to hold its next session on 18 December 1980, subject to confirmation by the secretariat.