

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED
DPC/F/11
6 January 1982

International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

SEVENTH SESSION

Report

Introduction

1. The Committee of the Protocol Regarding Milk Fat held its seventh session on 28, 29 and 30 September 1981.

Adoption of the agenda

2. The Committee adopted the following agenda:

1. Adoption of the report on the sixth 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. Review of the level of minimum prices for products covered by the Protocol.
5. Other business.

Adoption of the report on the sixth session

3. The Committee adopted the report on its sixth session with an amendment submitted by the representative of the European Economic Community. The report will be circulated as document DPC/F/9.

Information required by the Committee

(a) Replies to Questionnaire 2

4. The Committee was informed that Questionnaire 2 as revised by the experts at the meeting held on 17 June 1981 had been circulated as document DPC/F/W/3 and Corr.1. The Committee reviewed the replies to Questionnaire 2 and requested

members which had not yet communicated information for the second quarter of 1981 to do so without delay. In addition it was pointed out that the replies to Questionnaire 2 relating to the third quarter of 1981 should reach the secretariat not later than 15 December 1981.

(b) Summary tables

5. The Committee had before it a document containing revised summary tables (DPC/F/W/1/Rev.6) prepared under Rule 28 of the Rules of Procedure and covering the information furnished in Table A of Questionnaire 2. The Committee took note of the document. The Committee also noted that the secretariat would endeavour to prepare for the next session summary tables supplemented by percentages which might be useful in reading the documents. The secretariat would also prepare summary tables giving a breakdown of exports by main destinations.

(c) Other information

6. No other information was requested.

Review of the market situation for products covered by the Protocol.

7. The representative of Romania announced a change in his country's reply to Questionnaire 2 (DPC/F/STAT/17/Add.1). The production of butter in 1980 had been 34,500 tons and not 40,000 tons. On the basis of that revised figure, butter production had declined some 14 per cent below the 1979 level. No improvement in butter production could be expected in 1981. His country had exported no butter in the first quarter of 1981. Over the same period, domestic butter consumption had increased. According to figures which showed only consumption of butter from recorded sources, consumption had totalled 26,000 tons in the second quarter of 1981. In reality, taking into account production and consumption in rural areas, consumption could be considered to have exceeded that amount. In response to the increase in consumption, butter imports had increased. In the second quarter of 1981 Romania had imported 29,200 tons of butter from the EEC. Moreover butter consumption had increased as a result of changes in the general pattern of consumption of fats, and more particularly the observed decline in the consumption of other kinds of fat such as lard and edible oils. The trend towards increased butter consumption could be expected to continue in the third quarter of 1981, whereas in the last quarter there might be a change as a result of the new harvest of oilseeds. Butter stocks had increased from 200 tons to 12,600 tons during the second quarter of 1981.

8. The representative of Switzerland said that butter production had increased substantially in July and August 1981 as a result of the increase in milk deliveries and the measures taken to limit cheese production. Butter stocks had increased to some 7,000 tons at the beginning of September 1981 as compared with some 5,000 tons on the same date in 1980. That level of stocks

could not, however, be considered alarming. Imports, which had increased strongly in the first six months of 1981, might slow down in the second half-year.

9. The representative of Australia considered that butter production might diminish by some 11.6 per cent in 1981-1982 in response to an expected decline in milk production. Consumption of butter in consumer packs tended to be maintained, but strong price increases and strong competition in the domestic market had led to a reduction in the consumption of butter for industrial use. The quantities available for export in the 1981-1982 production year should be smaller than those of the preceding year and should amount to only 8,500 tons, comprising 6,000 tons of butter and 2,500 tons of ghee.

10. The representative of the United States said that milk production in his country, after having been for a long time in balance with demand, had started to exceed demand about two years previously. At first that had seemed to be a temporary phenomenon. However, it had turned out that that disequilibrium would be of a more permanent nature, unless measures had been taken to reverse that development. One of those measures had been not to increase dairy support prices in April 1981 when, under the then current legislation, such an increase would have been due. However, that had been only a stop-gap measure. More fundamental actions had to be taken to restore equilibrium on the internal market and in that way also to contribute to the stability of the world market. That had required two measures which were interrelated: stocks had to be reduced because they tended to depress market prices and thus would have rendered the support price mechanism ineffective, and a change in support levels had to be considered. That second action was not yet finalized. As to a reduction in surplus stocks, several options had been considered. On 24 July 1981 the Commodity Credit Corporation (CCC) had had 200,000 metric tons of butter in stock. Usual domestic disposal programmes would not have sufficed to reduce the stocks. The United States had considered selling surplus butter abroad under individual commercial bids. However, his country had been concerned that such sales might have led to world prices which could have been considered as being at an undesirably low level. Since both the United States and the New Zealand Dairy Board shared a common concern for the safeguard of the world's dairy market, the CCC had concluded a contract with the New Zealand Dairy Board on 5 August 1981. He informed the Committee that under the terms of that contract the CCC was to sell about 100,000 metric tons of butter up to forty months old at US\$1,550 per metric ton. The New Zealand Dairy Board would export that butter from the United States. It would buy that butter ex-United States inland warehouses. The United States and New Zealand would consult on any further commercial sales of United States butter during the term of validity of that agreement, i.e. until July 1982. He noted that the terms of the contract were public knowledge. His delegation did not believe that the contractual nature of the transaction should

be discussed in the Committee. It was a commercial transaction in the normal sense. However, because of the scope of that transaction, his delegation believed that it was right and proper to discuss it in the Committee. He concluded by saying that the transaction in question represented a removal of temporary surpluses. His country had no intention of embarking on a permanent policy of export subsidization.

11. The representative of New Zealand agreed that the subject should be discussed in the present meeting. He said that the statement made by the representative of the United States contributed to that discussion. He informed the Committee that his delegation had available for circulation within the meeting two statements issued after the signing of the contract by the New Zealand Minister of Overseas Trade and by the Chairman of the New Zealand Dairy Board. Both statements provided information on the approach taken by New Zealand on the issue. He emphasized that consultations with other countries having an interest in the international dairy market had been carried out in some cases prior to the signing of the contract and in other cases immediately after the agreement. The action taken was consistent not only with the spirit but also with the full intent of the International Dairy Arrangement.

12. The representative of the European Economic Community expressed surprise that that contract had not been notified. The question arose whether the mode of concluding that transaction was consistent with the commitments entered into under the GATT. According to some sources of information, the butter purchased by the New Zealand Dairy Board would be converted into "butter oil" before being placed on the market. It would be helpful to have some particulars of the programme for marketing the product, especially as to destinations and prices. Nevertheless, his delegation was sure the contract had been concluded with the intention of disturbing the world market as little as possible. In his delegation's view, moreover, if the Commodity Credit Corporation (CCC) had placed such a quantity of butter directly on the world market, that market would have been more severely disturbed, for the CCC did not possess institutional means equal to those of the New Zealand Dairy Board. His delegation hoped that the Community's share of the world market would be safeguarded and that the prices charged in international trade would not lead to ill-considered competition between exporting countries.

13. The representative of New Zealand gave the Committee an assurance that the transaction in question was designed to preserve the stability of the market, and that his country would see to it that the interests of exporting countries were protected.

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

14. In accordance with the provisions of Article 3, paragraph 3, of the Protocol, the Committee reviewed the level of the minimum prices for products covered by the Protocol. The Committee had before it proposals submitted

by New Zealand concerning that review (see in particular document DPC/P/W/4-DPC/F/W/4-DPC/C/W/5).

15. The Committee decided under Article 3, paragraph 3, of the Protocol Regarding Milk Fat that the levels of the minimum prices specified in that Article would be modified to US\$1,440 per metric ton for anhydrous milk fat and US\$1,200 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 modified accordingly. It was agreed that the decision would take effect at noon on 1 October 1981.

16. The Committee agreed that that decision would be duly 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.

17. The representative of New Zealand thanked all the participants for their co-operation and straightforwardness in the discussions, reflecting quite a degree of agreement on the initial design and evolution of the Arrangement. His delegation considered that the decision just taken concerning the modification of the minimum prices proved that the Arrangement was working effectively.

18. The representative of the European Economic Community said that his delegation could associate itself with the New Zealand representative's statement so far as the final result was concerned. His delegation nevertheless considered that the factors which should be taken into account for the purpose of modifying the minimum prices had not been sufficiently explored. It was to be hoped that at forthcoming sessions delegations would have at their disposal as much up-to-date information as possible concerning the production, consumption, trade, stocks and, in particular, international prices of the products covered by the Protocols, so that a constructive discussion might be held on the market situation of the products concerned. His delegation had not opposed the consensus reached regarding the modification of the minimum prices. It nevertheless wished to emphasize that the minimum prices should be set at levels to which participants could conform. It also wished to voice the concern it felt at the rather high level of the stocks of skimmed milk powder, butter and cheese held by certain countries. He appealed to those participants which had difficulties with their stocks to take steps to dispose of them on the domestic market so as to avoid disrupting the international market. The Community, for its part, had already taken certain steps and might have occasion to take more in order to dispose of its surpluses on the domestic market, thus safeguarding international trade. In conclusion he called upon all countries participating in the Committee's work to see to it that in the coming year the international market for dairy products continued to develop.

19. The representative of the United States emphasized that his delegation did not believe that the minimum prices should be subject to any automatic increase. In the view of his delegation the minimum prices should be considered as distress prices.

Other business

Report to the Council

20. The Committee agreed that an oral report on the discussions at the present session would be made to the Council.

Date of the next session

21. Under the provisional calendar of meetings, the next sessions of the Committees were to be held from 16 to 18 December 1981. It was decided that the Committees would hold their eighth sessions consecutively on 16 and 17 December 1981 and if necessary 18 December 1981, subject to confirmation by the secretariat. The session of the Committee of the Protocol Regarding Certain Milk Powders would be held on 16 December 1981, followed by that of the Committee of the Protocol Regarding Certain Cheeses and then by that of the Committee of the Protocol Regarding Milk Fat.