

International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

SEVENTEENTH SESSION

Draft Report

Introduction

1. The Committee of the Protocol Regarding Milk Fat held its seventeenth session on 27 and 28 March 1984.

Adoption of the agenda

2. The Committee adopted the following agenda:
 1. Adoption of the report on the sixteenth 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. Other business

Adoption of the report on the sixteenth session

3. The Committee adopted the report on its sixteenth session. The report will be distributed as document DPC/F/26.

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 fourth quarter of 1983 to do so without delay. In addition, it was pointed out that replies to Questionnaire 2 relating to the first quarter of 1984 should reach the secretariat not later than 15 June 1984.

(b) Summary tables

5. The Committee had before it a document containing revised summary tables (DPC/F/W/1/Rev.16) prepared in conformity with Rule 28 of the Rules of Procedure and reproducing the information furnished in Tables A and B of Questionnaire 2 regarding anhydrous milk fat and butter. The Committee took note of document DPC/F/W/1/Rev.16.

(c) Other information

6. No other information was requested.

Review of the market situation for products covered by the Protocol

7. The representative of the EEC indicated that overall production of butter had continued to increase in 1983, amounting to 2,183,000 tons, a rise of 11.8 per cent over 1982. That development was mainly due to a big

increase in milk deliveries and to the relatively small increase in the quantities of milk used for making other dairy products which depended on the possibilities of selling on normal terms in the internal market and particularly in the markets of third countries. Internal butter consumption had continued to decline in 1983 despite the Community's considerable efforts to promote consumption. He noted that 523,000 tons of butter had been disposed of within the Community at reduced prices. Some reduce-price programmes had, however, affected sales on normal terms. Exports had shown a further decline in 1983. The figure for exports of butter and anhydrous milk fat was the lowest since 1978. The Community's market share, which had been 62 per cent in 1979, had fallen to 48 per cent in 1983. The main reasons for that development were the general economic situation in consumer countries and the absence of export refunds for butter shipped to the USSR. He also indicated that in spite of its difficulties the Community had continued to import some 100,000 tons of butter in 1983. As a result of the large increase in production, the relative weakness of consumption and especially the decline in exports, total stocks had grown substantially, to the record level of 903,000 tons as at 15 March 1984. The export prices charged by Community operators ranged at present between US\$1,650 and US\$1,683 per ton f.o.b. for butter and between US\$1,862 and US\$1,899 per ton f.o.b. for anhydrous milk fat.

8. The representative of the EEC observed that four participants - the EEC, New Zealand, the United States and Australia - accounted for 85 to 90 per cent of butter exports. The volume of world trade, which had amounted to some 936,000 tons in 1981, had continually declined thereafter, to 780,000 tons in 1982 and 715,000 tons in 1983. EEC sales had dropped very substantially, New Zealand's sales had remained stable, and the United States, which had been out of the market until 1980, had been exporting butter since 1981. The United States seemed to have decided to continue to make sales on special terms and to engage in transactions under Section 416. He appealed to participants, and in particular the United States, to

adopt a responsible attitude in the matter of exports and to display a spirit of co-operation in order to maintain a disciplined market.

9. The representative of the United States said that he would convey the comments made by the representative of the EEC to his authorities. With regard to the market situation for butter, he informed the Committee that as a result of steps taken to balance supply and demand, production of butter had decreased by 6 per cent in January 1984 as compared to January 1983. It was expected that for calendar year 1984, production of butter would decrease. Uncommitted Commodity Credit Corporation stocks of butter were likely to decline sharply in 1984 but they would remain significant. It was expected that government stocks of butter would decline to 308 million lb. (approximately 139,700 tons) as compared to 391 million lb. (approximately 177,400 tons) at the beginning of the year. As of the week ending 16 March 1984, uncommitted stocks of butter had been at 386.7 million lb. (approximately 175,400 tons). It was estimated that distribution of butter under the special programme for the needy would amount to 144 million lb. (approximately 65,300 tons) in fiscal year 1984 as compared to 167 million lb. (approximately 75,800 tons) in fiscal year 1983 and 20 million lb. (approximately 9,100 tons) in fiscal year 1982.

10. The representative of the United States furnished information on food-aid shipments of dairy products under PL 480 and Section 416. A communication on that subject would be circulated as document DPC/W/28/Add.3. With regard to butter, he informed the Committee that for fiscal year 1984 the amount of 2,000 tons was projected under PL 480 as compared to 13,593 tons shipped in fiscal year 1983. Shipments under Section 416 were projected to reach 32,000 tons in fiscal year 1984 (of which 30,000 tons to Poland) as compared to 605 tons shipped in fiscal year 1983. With regard to butter oil, it was anticipated that 8,000 tons would be shipped in fiscal year 1984 under Section 416 as compared to 8,122 tons shipped in fiscal year 1983.

11. The representative of Australia said that according to certain sources, donations of butter and cheese from the United States to Jamaica were about to take place. She asked the representative of the United States whether he could confirm that information and provide the data on those donations.

12. The representative of the United States replied that he had no such information.

13. Referring to the United States representative's statement concerning food aid, the representative of the EEC asked whether the 30,000 tons for Poland were subject to certain terms.

14. The representative of the United States reiterated that the amount of 30,000 tons of butter as food aid to Poland was projected for fiscal year 1984 under Section 416. He explained that Section 416 was a straight donation programme to the needy and that the product was not sold in the market.

15. The representative of Poland, referring to the projected shipment of certain quantities of butter to his country mentioned by the representative of the United States and to the question asked by the representative of the EEC regarding the terms of such shipment, said that if past experience might be of any value as an indication of such terms, the imports of agricultural products sent as donations to Poland were handled entirely by non-commercial organizations outside the established commercial channels.

16. The representative of Switzerland indicated that imports of butter in the first quarter of 1984 had declined, to some 1,800 tons. He estimated that 700 tons would be imported in April 1984. Domestic consumption for the 1982/1983 dairy year (1 November 1982-31 October 1983) had shown a decline of 1 per cent from the preceding dairy year. Consumption had begun

to recover slightly in November 1983 but fell back in December 1983 so that it was difficult to predict a trend. Butter stocks, which had stood at 4,650 tons at the end of January 1984, amounted to 4,040 tons at the end of February 1984.

17. The representative of Sweden reported that butter production and consumption had increased in 1983 by 1 and 3 per cent, respectively, over 1982. Consumption of "Bregott", which was a variety of edible fat containing about 80 per cent butter fat and 20 per cent vegetable oil, had shown a rise of some 10 per cent in 1983 over 1982. Butter imports and exports had also increased in 1983. In February and March 1984, average export prices had then been US\$1,582 per ton f.o.b.

18. The representative of Norway said that in 1983, following an increase in butter production, exports had risen substantially over the 1982 level. For 1984, exports were expected to amount to some 5,000 tons as against 7,300 tons in 1983. About 3,000 tons had already been exported in 1984 in performance of contracts concluded in 1983. The average export price had been US\$1,700 per ton f.o.b. in 1983. During the first quarter of 1984, prices had been in the vicinity of US\$1,500 per ton f.o.b.

19. The representative of Finland said that butter output had risen in 1983. As a result, there had been a very strong expansion of exports, which had amounted to 26,000 tons in 1983 as against 8,000 tons in 1982. It was believed that production and exports could fall in 1984. The consumption of butter was declining in Finland. During the fourth quarter of 1983, export prices had been US\$1,694 per ton f.o.b.

20. The representative of South Africa said that domestic consumption of butter had increased in 1983 primarily due to promotional efforts undertaken by the Dairy Board.

21. The representative of Poland said that the significant improvement in milk production had been reflected in butter output, which had amounted to some 261,000 tons in 1983, an increase of 16 per cent over 1982. Imports of butter had dropped very sharply from 25,000 tons in 1982 to 2,500 tons in 1983. Exports had resumed in 1983 and amounted to some 5,000 tons, the main destination being West European countries. In 1983, export prices had averaged US\$1,640 per ton f.o.b.

22. The representative of Australia said that butter and anhydrous milk fat production in the first six months of the current season had been 26.6 per cent above the corresponding period in the 1982/83 season. International market pressures continued to result in most of the increased milk production being diverted into butter, skimmed milk powder and casein. The Australian Dairy Corporation's butter production estimate of 105,000 tons represented a year on year gain of 18.9 per cent. As a response to both stable prices and an increase in promotional activity, domestic consumption of table butter was currently running at around 5 per cent up on the previous season, while total domestic consumption of butter and butter oil in 1983/84 was estimated at 62,725 tons or 2.7 per cent above the 1982/83 total. Given a desirable closing stock, export availability was expected to be around 57,000 tons. International market prices had been variable depending on the supplier, the market into which the product was offered, and the terms of sale. In general, prices were continuing to weaken in response to high and increasing butter stocks in most major dairy countries, particularly in the EEC, weak export demand, and increasingly desperate suppliers.

23. The representative of the United States said that, as he had mentioned in the session of the Committee of the Protocol Concerning Certain Milk Powders, trade sources had reported that international trading in dairy products had been rather quiet in past weeks. In fact, only bids or tenders for skimmed milk powder and butter had been reported, while trading

in whole milk powder and butteroil seemed to have come almost to a standstill. He recalled that butter prices reported during the past four weeks were as follows:

| <u>Date</u> | <u>Origin and/or destination</u> | <u>Price (US\$ per ton)</u> |
|------------------|----------------------------------|----------------------------------|
| 22 February 1984 | Argentina | 1,500 free Rotterdam |
| 7 March 1984 | Argentina to Syria | 1,500 c.i.f. |
| | Australia | 1,250 f.o.b. |
| | Czechoslovakia | 1,390 free local cold storage |

He said that he would appreciate any comments by the delegations of Australia and Argentina on those or other prices in international trade.

24. The representative of Australia said that she had no information on the subject but that she would check and would reply as soon as possible.

25. The representative of Argentina replied that he had no knowledge of the transactions referred to by the representative of the United States. His delegation would consult its authorities.

26. The representative of the EEC suggested that indications concerning offered prices should be communicated before the sessions of the Committees so that the participants concerned would have time to obtain the necessary information and be able to reply during the sessions of the Committees.

27. The representative of the United States emphasized that his delegation had just received the price information reported by trade sources. He noted that the prices discussed were higher than the market quotations communicated by his delegation. He wished to bring that matter to the attention of the Committee.

28. The Committee emphasized that it should have at its disposal all necessary information, including in particular data concerning international prices, so as to be able to make a more accurate assessment of the situation.

29. The representative of Hungary indicated that butter production and consumption had risen slightly in 1983 over 1982. Imports and exports had also shown an increase. During the fourth quarter of 1983, import prices had been between US\$1,700 and US\$1,750 per ton while export prices had varied between US\$1,600 and US\$2,250 per ton franco Hungarian frontier.

30. The representative of Japan said that imports of butter had declined in 1983 as compared to 1982. Stocks of butter had increased reflecting the increase in domestic production. Import prices, which had been around US\$2,500 per ton c.i.f. until the beginning of 1983, had declined and had been recently around US\$2,000 per ton c.i.f.

31. The representative of New Zealand said that current offer prices of butter on the international market were between US\$1,500 and US\$1,550 per ton f.o.b. New Zealand prices for anhydrous milk fat had been at the upper end of a wedge between US\$1,700 to US\$1,750 per ton f.o.b. generally prevailing internationally.

32. The observer for Canada said that butter consumption had shown a slight increase in 1983. Canada did not normally export butter. Following the increase in production in 1983, however, his country had had to export small quantities of butter during the second and third quarters of 1983. These sales, which had not affected the world market, appeared to have been made at prices that were in the upper part of the range of prices mentioned at sessions of the Committee.

33. The Committee stressed that the market situation for dairy products remained serious. It was not very likely that demand would increase significantly and it seemed obvious that, in spite of the measures which

had been taken or which were planned, available supplies would again exceed real demand in 1984. The Committee reaffirmed the importance of co-operation by all participants in international trade in those products and emphasized again that a responsible attitude on their part and a strict observance of provisions of the Arrangement were indispensable to prevent an aggravation of the market situation.

Other business

Communication from the Permanent Mission of Australia

34. On the basis of a communication from the Permanent Mission of Australia, which had been circulated under the threefold symbol DPC/P/W/17, DPC/F/W/12 and DPC/C/W/17, the Committee approved Australia's interpretation of Article 2 of the Protocol, namely that Melbourne could be used as the reference point for exports of products coming from Tasmania.

Report to the Council

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

Date of the next session

36. In accordance with the preliminary calendar, the next sessions of the Committees would be held from 20 to 22 June 1984. It was decided that the Committees would hold their eighteenth sessions consecutively on 20 and 21 June 1984 and if necessary on 22 June 1984, subject to confirmation by the secretariat. The session of the Committee of the Protocol Regarding Milk Fat would be held on 20 June 1984, followed by the session of the Committee of the Protocol Regarding Certain Milk Powders and then by the session of the Committee of the Protocol Regarding Certain Cheeses.

ANNEX/ANNEXE/ANEXO

LIST OF REPRESENTATIVES - LISTE DES REPRESENTANTS -
LISTA DE REPRESENTANTES

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Presidente:

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