

International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

Nineteenth Session

Draft Report

Introduction

1. The Committee of the Protocol Regarding Milk Fat held its nineteenth session on 24, 25 and 26 September 1984.

Adoption of the Agenda

2. The Committee adopted the following agenda:
 1. Adoption of report on the eighteenth session
 2. Information required by the Committee:
 - Replies to Questionnaire 2
 - Summary tables
 - 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 report on the eighteenth session

3. The Committee adopted the report on its eighteenth session. The report will be distributed as document DPC/F/29.

Information required by the Committee

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

- Summary tables

5. The Committee had before it a document containing revised summary tables (DPC/F/W/1/Rev.18) 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.18.

- Other information

6. No other information was requested.

- Simplified presentation of the questionnaire

7. With a view to simplifying presentation of the questionnaire the Committee agreed that the quarterly replies would in future be circulated in the form of photocopies and not documents. The summary tables circulated before the Committee's session would be revised and circulated again afterwards.

- Harmonization of questionnaires

8. The hope was expressed that the questionnaires would be simplified as much as possible and harmonized with the other questionnaires to which participants had to reply.

Review of the market situation for products covered by the Protocol

(a) Current situation and outlook

9. The representative of the EEC estimated that butter output in 1984 could be 7.4 per cent below the 1983 level. A further decline by 3.1 per cent was expected in 1985 in relation to 1984. Domestic consumption was forecast to show an increase in 1984 and to remain stable in 1985. At 13 September 1984, public stocks of butter had totalled 1,045,953 tons; at the same date private stocks of butter had been at the level of 207,848 tons. Public stocks at 13 September 1984 had been slightly down (by 4,000 tons) from the level recorded at 30 August 1984. The downtrend was expected to continue in the coming months, in particular because of reduced production. Considerable efforts were being made to boost consumption and reduce stocks, inter alia, through sales at reduced prices. Private stocks were expected to be nil by spring 1985, since as from 16 September 1984 there was no longer any possibility of concluding private storage contracts. Notwithstanding the level of stocks, butter prices on the Community market were increasing and were above the level of the intervention price in certain member States. Taking into account the new situation in respect of market prices, and also the conversion rate between the US dollar and the ECU, Community operators were currently able to export market-grade butter at prices between US\$1,400 and US\$1,450 per ton f.o.b., while butter oil could be sold at prices in a bracket between US\$1,680 and US\$1,700 per ton f.o.b. With respect to special sales of intervention butter, a communication from the EEC had been circulated as DPC/F/W/13 and such butter was being sold at a price equivalent to the intervention price (ECU 319.70 per 100 kg.) less ECU 33 per 100 kg. Taking

into account various costs, in particular the conversion to f.o.b., administrative and financial costs as well as the operators' margin and the current exchange rate of the US dollar, Community operators could not export butter at a price below US\$1,270 per ton f.o.b. Butter intended for export in the form of ghee was sold at prices equal to the intervention price less ECU 40 per 100 kg. Taking the various costs into account, net export prices should be between US\$1,480 and US\$1,490 per ton f.o.b.

10. The representative of New Zealand referred to the special sales of intervention butter by the EEC and said that in the two months since the scheme had been announced, his authorities had conveyed clearly to the EEC New Zealand's views on the disposal attempt. In the view of his delegation, the EEC disposal announcement was unfortunate on three counts. Firstly, because it was unlikely to work. His delegation did not believe it would result in the sale of intervention butter, whether as old butter or "ghee" and, if it did, the sales would probably just replace existing sales of EEC fresh butter. Secondly, because of the psychological effect on the international market. The very announcement of the scheme had consolidated the weaknesses which had been apparent in the butter market and established it firmly at the lower level, and thirdly, because of the motives behind the decision. It had been argued that it was a matter of having to make an attempt to dispose of some of the intervention butter on the international market - whether successful or not - to counterbalance the efforts being made internally. But it had been also argued, that the EEC should be able to buy itself a larger share of the market, even when the market was contracting. Those who believed this were not in the majority but the very fact that such a view existed was disturbing. He thanked the EEC delegation for its action in notifying the scheme in writing to the Committee. The notification mentioned a likely export price for the intervention butter of around US\$1,300 per ton f.o.b. As the representative of the EEC had pointed out, movements of the US dollar since the decision had been taken had brought the price down further. However his delegation would agree with the assessment that, when traders' profits

and costs were taken into account, the likely export price was still a margin above the minimum price. The figures furnished by the representative of the EEC seemed a reasonable reflection of the current situation. The fact that the prices were above the minimum prices was not the only consideration. Before the scheme had been announced, butter export prices from the Community had been, for the most part, up around US\$1,500 per ton f.o.b., even if there had been isolated offers, as from other suppliers at considerably lower prices. The announcement had effectively meant that those isolated offers had become the rule. The market had moved from one plane to another, and suppliers who make their living from the market had little choice but to follow it and adjust their list prices to the new market reality. He pointed out that it was self-evident that subsidized disposals on the international market by a surplus producer, whether major or minor, and whether the system was transparent like the EC's or obscure like some others, were going to harm the efficient supplier to that market. The potential of the New Zealand dairy industry and its economy as a whole had been severely constrained over the years because of such activity on the part of others. The thought that such action could be motivated, for a few, by market share aspirations was the worst aspect. The Community on the whole had acted responsibly in recognizing the inevitability of a reduction in its dairy exports during the period of market contraction. It was tackling its internal production and stock problems with determination and the results were coming through. The EEC was hoping that the stocks would gradually decline. His delegation believed that the Community was currently drawing a lesson from this recent butter disposal attempt. There was no solution for the stocks on the international market. He believed that the market could rest assured that the Community as a whole recognized this fact. His delegation hoped that when the Community believed the time was right, it would review this disposal scheme and assist to bring about a firming in the international market.

11. The representative of Australia enquired why the EEC had chosen the special approach described in DPC/F/W/13 in order to export butter and

ghee. In the view of his delegation, the EEC could have fixed a different refund applicable for certain limited quantities and for certain destinations, without any adverse effects on exports by other countries. In addition, he enquired whether any sales had taken place in pursuance of those measures, for how long the measures were to be applicable, and whether the disposal programme was likely to be reviewed.

12. The representative of the EEC explained that no special refund had been fixed because the Community wanted to dispose of old butter first. That was why the butter was being sold at a price equal to the intervention price less ECU 33 per 100 kg. (or ECU 40 per 100 kg. in the case of butter intended for export in the form of ghee). With respect to compulsory destinations, the EEC had tried to limit the sales to certain markets in order not to disrupt the international market for butter and ghee. The EEC had had some hopes in regard to sales of ghee which had not been realized to any appreciable extent. Negotiations were proceeding in regard to butter, and the Committee would be informed of developments at its next session. With respect to the remarks by the New Zealand representative concerning the psychological effect of the measures, that effect was already present when stocks held by the EEC and the United States were causing market pressure. Considerable efforts were being made to boost internal consumption but results obtained so far had fallen short of expectations. The market share of the Community had been declining steadily in recent years.

13. The representative of Argentina said that butter exports in the first six months of 1984 had been substantially lower than in the corresponding period of 1983. The principal destination was Chile and average export prices to that country in the second quarter of 1984 had been in the vicinity of US\$1,410 per ton f.o.b.

14. The representative of Australia said that production of butter in 1983/84 had increased by 26 per cent as compared to 1982/83 and reached 111,300 tons. It was estimated that production of butter in 1984/85 would

increase by 5 per cent and amount to 117,000 tons. Exports had increased significantly in 1983/84 and totalled 43,000 tons as compared with 18,000 tons exported in 1982/83. In response to significantly increased promotional activity, domestic consumption of table butter had increased in recent months. Stocks of butter at the end of June 1984 had been at a high level and reached 31,700 tons as compared to 22,500 tons at the end of June 1983. International market prices for butter had been variable in the period under review. Prices of salted butter were in the range of about US\$1,200 per ton f.c.b. at the bottom end of the scale for bulk product and they were ranging up to around US\$1,400 to US\$1,450 at the top end of the scale for branded product.

15. The representative of Uruguay said that butter output had declined in the second quarter of 1984 in relation to the second quarter of 1983, while consumption had risen. At the end of the second quarter of 1984, stocks had been at a high level - 4,800 tons as against 3,200 tons one year earlier.

16. The representative of the United States estimated that production of butter would be approximately 520,000 tons in 1984, a decrease of 12 per cent as compared to 1983. Production was expected to decline further by 4 per cent in 1985 and reach 500,000 tons. At 9 September 1984, uncommitted stocks of butter held by the Commodity Credit Corporation had been at the level of 118,300 tons as compared to 179,800 tons at 23 September 1983. Total consumption at 545,000 tons might remain unchanged in 1984 as compared to 1983.

17. The representative of Switzerland estimated that butter output could reach 10,600 tons in the third quarter of 1984, while imports had been nil in that period. It was expected that some 3,000 tons of butter would be imported in the fourth quarter of the year. Butter consumption could show a slight decline (by about 1 to 2 per cent) in 1984.

18. The representative of Sweden said that production and consumption of butter in the first half of 1984 had shown a slight increase in relation to the corresponding half of 1983. Over that same period, butter exports had dropped back. At the Committee's previous session, one delegation had noted that export prices quoted by Sweden and Norway were lower than those of other exporters. That price difference could be explained in part by the fact that Sweden and Norway had designated reference points that were recorded in Annex II(a) to the Arrangement by derogation from the provision according to which selling prices were calculated on an f.o.b. basis from the exporting country or free-at-frontier exporting country. In September 1984, average export prices had been in the vicinity of US\$1,480 per ton f.o.b.

19. The representative of Norway said that in the first six months of 1984 butter output had declined while domestic consumption had risen. Over the same period, exports had totalled 3,800 tons, but were expected to be nil in the second half of the year. In the first six months of 1984, average export prices had been around US\$1,400 per ton f.o.b.

20. The representative of Finland indicated that butter production could reach some 78,000 tons in 1984 i.e. 7.1 per cent less than in 1983. Domestic consumption was expected to drop back 3 per cent in 1984 to the level of 57,000 tons. At 1 July 1984, butter stocks had totalled 12,000 tons, as against 22,000 tons one year earlier. Exports could reach some 20,000 tons in 1984, i.e. 6,000 tons below the previous year's level. In the second quarter of 1984, export prices of butter had been around US\$1,536 per ton f.o.b.

21. The representative of South Africa said that butter consumption had increased in the second quarter, when consumers had been buying the product in large quantities before the increase in retail prices scheduled for July 1984. Butter consumption was expected to show a decline in the third quarter of 1984. For the year as a whole, however, butter consumption was forecast to show a slight increase in relation to 1983.

22. The representative of New Zealand said that production of butter for export had amounted to 250,000 tons in 1983/84 as compared with 217,000 tons in 1982/83. It was estimated that production for export would decline to 220,000 tons in 1984/85. Consumption of butter had remained relatively stable. He pointed out that consumption had been assisted by a promotional campaign undertaken by the New Zealand Dairy Board. At 30 June 1984, stocks of butter had increased to 75,000 tons as compared with 21,000 tons a year earlier. International market prices for butter in the third quarter of 1984 had been variable. Up to the point of the announcement of special sales by the EEC, butter prices had been maintained in the vicinity of US\$1,500 per ton f.o.b. With regard to special sales by the EEC, the likely export price mentioned by the representative of the EEC seemed a reasonable reflection on the current situation. In addition, some offers and some sales had been made at prices close to the minimum price. He noted that the figures around US\$1,400 per ton f.o.b. mentioned by certain delegations were more or less in between those ranges. Butter oil prices had been between US\$1,650 and US\$1,750 per ton f.o.b. However, some offers and sales seemed to have been at lower prices, i.e. at around US\$1,550 per ton f.o.b.

23. The representative of Japan said that, despite the increase in domestic production, imports of butter were increasing. Imports in the period January to July 1984 had increased by 18 per cent as compared with the corresponding period in 1983. Import prices in that period had been weak and averaged US\$1,960 per ton c.i.f.

24. The representative of Hungary said that output and consumption of butter had remained relatively stable in the first six months of 1984. Over the same period, exports had declined substantially while imports had been nil.

25. The representative of Bulgaria said that butter production had dropped back in the first six months of 1984. Bulgaria had no imports nor exports, production being exclusively intended for domestic consumption.

26. The representative of Poland said that butter output in the eight first months of 1984 had been 15 per cent larger than in the corresponding period of 1983. That growth rate was expected to continue until the end of 1984. Notwithstanding the production increase, it had not been possible to lift the consumption restrictions in force since output was still not sufficient to cover domestic market requirements.

27. The observer for Canada said that butter consumption had declined by about 3,000 tons in the 1983/84 dairy year. Increasing butter prices relative to margarine and adverse publicity regarding cholesterol may have had a dampening effect on butter demand. Stocks of butter on 1 August 1984 had been about 1,000 tons higher than on the same date in 1983. The increase in inventories could have been significantly higher had butter production not decreased from about 111,800 tons in 1982/83 to around 108,500 tons in 1983/84. The year-end stock figures might reflect higher purchases towards the end of the dairy year in anticipation of the regular 1 August price increase. Production was expected to increase significantly in the August/December 1984 period. With consumption static, it was expected that butter stocks would increase. In periods of equilibrium, year-end butter stocks were about 20,000 to 23,000 tons. Current inventories were almost 34,000 tons. As the questionnaire data showed, Canada traded little in butter, with only very minor volumes of exports.

28. The Committee expressed concern over the level of recorded prices and their diversity. While for the moment action under Article 4 of the Protocol did not seem necessary, the Committee underlined that the utmost vigilance was essential and that it needed the most detailed information possible regarding sales at or close to the level of the minimum prices, and action taken to ensure observance of those prices.

(b) Communication from the Australian Permanent Mission

29. A communication from the Australian Permanent Mission, circulated as DPC/P/W/20, DPC/F/W/14, DPC/C/W/19, raised a question of interest for the

three Committees. The discussions on that communication are recorded in paragraphs 24 to 37 of the report on the nineteenth session of the Committee of the Protocol Regarding Certain Cheeses.

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

30. In accordance with Article 3:3 of the Protocol, the Committee reviewed the level of minimum prices for products covered by the Protocol.

31. The representative of New Zealand recalled that in September of each year the minimum prices were subject to review by the Committee on the basis of criteria listed in Article 3, paragraph 3(b) of the Protocol. In the view of his delegation, several factors would justify an increase in the minimum prices, in particular, costs faced by producers, the need to maintain a long-term minimum return to the most economic producers and the need to maintain stability of supply. However, the Committee must face the fact that the current market situation was not conducive to an increase in the minimum prices. For this reason, his delegation had decided to refrain from proposing increases in the minimum prices at the present session.

32. The representative of Australia supported the views expressed by the representative of New Zealand. He added that taking into account the current market situation, his delegation would not propose at the present session any increase in the minimum prices. Equally though his delegation did not believe that there was merit in contemplating a reduction in the minimum prices. In his delegation's view, to decrease the minimum prices simply because the market was in difficulty, would defeat the purpose of the minimum prices.

33. The representative of the EEC said that his delegation had no proposal to make regarding modification of the minimum prices. On the other hand, his delegation considered it necessary to take account of exchange rate fluctuations for the US dollar on exchange markets. The fact that since

1 October 1981, the US dollar had appreciated by 45 per cent in relation to the ECU could be interpreted as a proportionate increase in the minimum prices.

34. It was noted that several factors that would justify an increase in the minimum prices had been mentioned by certain delegations, in particular costs faced by producers. The Committee considered, nevertheless, that having regard to other factors, inter alia the market situation and monetary fluctuations, there was no need to modify the minimum prices for the time being.

Other business

Report to the Council

35. The Committee agreed that an oral report on the discussions at the current session would be presented to the Council.

Date of next session

36. In accordance with the preliminary calendar, it has been decided that the Committees will hold their twentieth session consecutively on 17, 18 and if necessary 19 December 1984, subject to confirmation by the secretariat. The session of the Committee of the Protocol Regarding Certain Milk Powders will be followed by the session of the Committee of the Protocol Regarding Certain Cheeses, and then the session of the Committee of the Protocol Regarding Milk Fat.

ANNEX/ANNEXE/ANEXO

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