

GENERAL AGREEMENT ON

RESTRICTED

TARIFFS AND TRADE

Spec(87)38
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International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

Thirtieth Session

Draft Report

Introduction

1. The Committee of the Protocol Regarding Milk Fat held its thirtieth session on 15 June 1987.

Adoption of the agenda

2. The Committee adopted the following agenda:
- A. Adoption of report on the twenty-ninth session
 - B. Information required by the Committee:
 - (i) Replies to Questionnaire 2
 - (ii) Summary tables
 - (iii) Other information
 - C. Sales under derogations
 - D. Review of the market situation for products covered by the Protocol
 - E. Report to the Council
 - F. Date of the next session

Adoption of report on the twenty-ninth session

3. The Committee adopted the report on its twenty-ninth session, as amended. This was distributed as document DPC/F/49.

Information required by the Committee

(i) Replies to Questionnaire 2

4. The Committee reviewed the replies to Questionnaire 2 and requested participants who had not communicated such information in respect of the first quarter of 1987 to do so without further delay. They were also requested to submit information regarding the second quarter of 1987 by 15 September 1987 at the latest.

(ii) Summary tables

5. The Committee reviewed the summary tables based on information provided by participants up to the end of 1986, which were issued in document DPC/F/W/27. It was noted that revised summary tables would be issued when data for the second quarter of 1987 would be received from all the participants.

(iii) Other information

6. The Committee took note of the statistical information which the secretariat had compiled on production, trade (including food aid), stocks and consumption of dairy products in the United States. Data related to the first quarter of 1987 and gave forecasts for the second quarter of 1987.

7. The Committee was informed that no significant sales had been made by the United States under the new Dairy Export Incentive Program adopted in February 1987. The secretariat would, however, continue to follow the future developments in this programme.

8. The Committee also took note of the information given by the secretariat on the follow-up of the understandings reached by the Committee and of the work being done in other organizations with regard to the effects of the Chernobyl nuclear accident (see Spec(87)40, paragraph 8).

Sales under derogations

9. The Chairman recalled that since its meeting in March, the Committee had received two new notifications from the European Communities under paragraph 1 of the Decision adopted on 31 May 1985 (DPC/F/35), in respect of sales of aged butter from the intervention stocks. These notifications had been issued in documents DPC/F/W/26/Add.2 and DPC/F/W/26/Add.3, respectively, covering tenders for sales of 181,500 tons and 18,500 tons of butter to the Soviet Union at prices below the GATT minimum, in pursuance of the contracts concluded on 29 December 1986.

10. It was further recalled that the Protocol Committee Regarding Milk Fat had held a restricted meeting on 8 May and 2 June 1987 to consider New Zealand's notification (DPC/F/W/28) under Article IV:6 of the Arrangement, concerning its intention to export fresh butter to the Soviet Union in terms of paragraph 4 of the Decision of 31 May 1985 (DPC/F/35), at a price below the GATT minimum. After extensive discussions, the Committee determined that the actions, as notified by New Zealand (DPC/F/W/28), and similar action should it be notified by other participants, would be deemed to be measures required to meet the particular situation. The Committee agreed that any such notifications for shipments of butter to the USSR in 1987 would be deemed to be consistent with this determination from the date of New Zealand's notification.

11. Following the adoption of this Decision on 2 June 1987, the Chairman of the Committee made a statement to underline his understanding that all participants to the consultations had agreed on the need, depending on the evolution of the market, to review some of the provisions of the Decision adopted at some later stages, particularly in connection with the regular meetings of the Committee in September and December (DPC/F/W/29).

12. The representative of Australia, while joining the consensus, stated that paragraph 4 of the May 1985 derogation had conferred certain rights on Australia and obligations on other participants which had not been fully met. Under this paragraph and the associated assurances given at that time, Australia was entitled to sell at the IDA minimum without specific time-limits on delivery. Australia was prepared to accept the Committee's Decision as an enabling mechanism for paragraph 4. His country could not accept a reduction in prices under paragraph 4 and at the same time a restraint on commercial flexibility in shipping. Australia, therefore, reserved its right to come back to the Committee if it proved difficult or impossible to comply with the arbitrary cut off date of 31 December 1987, that was being imposed by the Committee's Decision. Australia interpreted the Chairman's statement to mean that if relief was sought from the arbitrary and artificial constraint date of 31 December 1987, it would be provided without too much delay. (The full text of this statement was circulated in DPC/F/W/30.)

13. In reply to the Chairman's question of whether New Zealand had any additional information to provide relating to its original notification DPC/F/W/28, or if other participants had any such information under the Decision DPC/F/48, the representative of New Zealand said that there was nothing new except that the butter in question had left his country.

14. The Australian representative said that while he had no additional information to provide, he wished to ask the European Communities when did they expect to ship their outstanding butter option of 200,000 tons under the May 1985 derogation. The spokesman of the EC replied that while 300,000 tons of butter were already out of the intervention stocks and in the hands of the operator for shipment, it was not certain yet whether the remaining 200,000 tons of the option would be fully utilized due to the very heavy burden of the cost of this operation. The total cost of the disposal operation, internally and externally, was expected to be in the region of ECU 3.5 billion, which presently posed serious difficulties to the Commission. The matter was therefore being reconsidered, and the final decision would be known only after a few weeks.

15. The representative of Uruguay said that although his country did not oppose the consensus reached on 2 June, his authorities had encountered some problems in accepting this decision (DPC/F/48). While they recognized the difficulties faced by New Zealand, they thought that each time any individual exporter was confronted with difficulties in selling at or above the minimum price it was not appropriate to seek a derogation from the price provisions. The Uruguyan authorities thought that a breach of the price system instituted by the Arrangement was not an ideal solution of the problem. This kind of solution could, on the contrary, harm the interests of exporters themselves. They were, therefore, of the view that such decision, if taken frequently, could jeopardize an effective functioning of the Arrangement.

16. The Finnish delegate, speaking on behalf of the Nordic countries, said that since they had participated in the process and had accepted the decision of 2 June 1987, they were not happy with the evolution of the situation. The Committee was confronted with a "fait accompli" and had only a choice between a number of more or less negative alternatives. The Committee was not able to face the facts of the market situation in a sufficiently realistic manner in order to secure the proper functioning of the Protocol in the future. They hoped that the present confusion in the international butter market would only be temporary and to this effect they were willing to contribute. However, they wished to reiterate that it was vital for the future of the Protocol that all participants strictly followed the agreed minimum price. If that was not the case, their exporters would continue to foresee major difficulties in the coming months. When the Committee decision was taken they had pointed out that certain aspects of the decision would have to be looked into again at later meetings of the Committee this year. The Chairman's understanding also confirmed this prospect. They were therefore willing to wait and see how the agreed arrangements functioned and how the market situation evolved. They were, however, of the view that the Committee would be in a better position to judge, at its September meeting, whether the Protocol and the decision of 2 June 1987 had been able to meet the requirements of the real market situation. The Nordics did not have any additional information to supply, but expected to report some sales of butter in the coming few weeks.

17. The Committee took note of all the statements and the additional information provided by participants. It was agreed that a more realistic evaluation of the market situation and a review of the minimum price structure for all dairy products could only be made at the next meeting of the Protocol Committee in September.

Review of the market situation for products covered by the Protocol

18. The representative of the EC said that the EC Council of Agriculture Ministers had not yet decided upon the package of policy measures for 1987-88, and for this reason the reply to Questionnaire 5 had not been sent to the GATT secretariat. The Council was at the moment deliberating on it at Luxembourg and would soon adopt a policy package which would then be notified. In any case, the Committee, at its December 1986 meeting, was informed that radical measures had been adopted by the Council of Ministers, with particular emphasis on a reduction of reference quantities of quotas, by 6 per cent in 1987-88 and by 5 per cent for the 1988-89 season. Another major decision taken was a strengthening of disciplines on super-levies and an increase of penalties on producers who exceeded the quotas. Also, decisions were taken on the intervention régime whereby intervention would cease at certain ceiling levels. The Council also decided upon a series of disposal measures for liquidation of 1.03 million tons of butter stocks. In regard to the market situation for butter, he said that production in 1986 went up to 2.17 million tons, but was expected to drop by 15 per cent in 1987 to an estimated level of 1.85 million tons. Total consumption of butter in the Community amounted to 1.61 million tons in 1986, dropping by 0.7 per cent in 1987 to a level of 1.59 million tons, even though the Community was endeavouring to encourage domestic consumption through various incentive measures. Stocks on 11 June 1987, aggregated 1.23 million tons, i.e. 1.19 million tons in the public sector and 42,000 tons in the private sector; as against 1.38 million tons on 27 November 1986, with 1.26 million tons public and 114,000 tons private stocks. Average export prices remained slightly below the minimum price of US\$1,000/ton f.o.b., but for certain small quantities, prices ranged between US\$1,200-US\$1,250 per ton f.o.b. Average export price for

butteroil was US\$1,200 per ton f.o.b. Reacting to the concern expressed by Australia regarding the observance of minimum price of anhydrous milk fat, he reiterated that member countries had undertaken certain steps to ensure that the minimum prices were observed and that efforts were further pursued in this direction. In this connection, restitutions given on this product had recently been revised downwards in the light of prevailing market realities. The EC was, however, prepared to look into all relevant information and any disquieting features of the market place.

19. The representative of New Zealand said that milk production during the season ending 31 May had fallen by 15 per cent, mainly as a result of adverse climatic conditions. This was accompanied by a significant fall in the production and exports of butter. During the first quarter of 1987, production at 52,500 metric tons was 33 per cent less than the level in the corresponding period of last year, and 14 per cent smaller in the four quarters when compared to the level of the corresponding four quarters of last year. This was subsequently reflected in butter exports which fell by 25 per cent in 1986 compared to their level in 1985. The fall in the first quarter of 1987 amounted to 35 per cent, as exports amounted to 27,900 metric tons as against 43,500 metric tons in the same three months of 1986. Commenting on the question of the observance of minimum prices of anhydrous milk fat by the EC, he shared the concern expressed by Australia. Even though the EC had taken various measures in this regard, the matter required more serious consideration of all members.

20. The representative of Japan mentioned that milk production during fiscal year 1986 was 7.36 million tons, which was 1 per cent below the level in the previous year, mainly due to production controls. The decrease was reflected in the production of both butter and skimmed milk powder. The production of butter at 81,000 tons was 11 per cent below the level of the 1985 fiscal year. The stocks of butter were, however, still at a high level due to a stagnation in butter demand. Imports of butter in 1986 were 3 per cent below the level of 1985 mainly due to the piling up of the stocks. Average import price in 1986 was reckoned at US\$1,400 per ton c.i.f. as against US\$1,354-US\$1,621 per ton c.i.f. in more recent months of 1987.

21. The representative of Australia told the Committee that milk production (deliveries to dairies) in the first quarter of 1987 was 1,534 million litres, up 3.9 per cent on the production of 1,477 million litres in the corresponding period of 1986. Production during the July 1986 and March 1987 season at 5,174 million litres was 2 per cent up on production in the corresponding preceding season. The increase was due to improved seasonal conditions in the major producing regions. Milk production in 1986/87 was now forecast at 6,100 million litres, an increase of 1 per cent on the output of 6,040 million litres during the 1985/86 season. As regards butter/butteroil (commercial butter equivalent), production in the first quarter of 1987 was marginally down from 24,200 tons to 24,100 tons over the corresponding period in 1986. Total butter/butteroil production in July 1986-March 1987 was 91,800 tons, which was 4.4 per cent down on July 1985-March 1986 production of 96,000 tons, due mainly to increased production of non-Cheddar cheese and whole milk powder. Production in 1986/87 (July-June season) was forecast at 101,000 tons, which would be 3,900 tons less than in the corresponding previous season. Exports in 1986/87 were forecast at 34,000 tons as against 54,400 tons in 1985/86 (exports over July 1986-March 1987 amounted to 26,900 tons). Domestic sales of butter/butteroil were expected to increase marginally from 59,600 tons in 1985/86 to about 60,000 tons in 1986/87. Commenting on the world situation, he said that the international market prices for butter/anhydrous milk fat were currently priced off their respective IDA minimum levels of US\$1,000 and US\$1,200 per ton f.o.b. Several sales of butteroil had been reported at less than the minimum price. It was hoped that the recent large EC sales to the USSR, together with an ambitious domestic disposal scheme, would go some way to reducing the EC's present stocks. However, it was likely that prices would continue to remain depressed in 1987.

22. The representative of Switzerland apologized for not having replied to Questionnaires 1 to 3 in time, but was in a position to provide more recent information to the Committee. In keeping with a decline of 3.7 per cent in all dairy production in the first 4 months of 1987 over the same period of 1986, production of butter was 100 to 200 tons smaller. Imports of butter

had increased corresponding to the decline in domestic production. Consumption remained unchanged in spite of the promotion measures adopted. Stocks also remained more or less stable. Import prices during the April-June 1987 period were estimated to be US\$1,300 per ton franco-frontier. In reply to a New Zealand question of whether productivity declined at higher altitudes making it necessary to grant higher subsidies to the producers of milk, he confirmed that it was unavoidably so because of the increase in production costs at higher altitudes. In reply to another question by Australia of why Switzerland's butter import price was so high, he explained that butter was imported only from certain traditional suppliers and it was of a superior quality without any odour. The representative of the EC at this point interjected to say that the EC import price of butter was even higher than the Swiss or Japanese import price, especially that from New Zealand.

23. The Swedish delegate said that both production and consumption of butter had increased during the first quarter of 1987 compared to the corresponding period of 1986. Exports of butter had somewhat declined. The forecast for production was that it would suffer a decline in 1987.

24. The representative of Norway said that butter production during the first quarter of 1987 was almost 11 per cent higher than its level in the same period of last year due mainly to a 4 per cent increase in milk production and the consumer preference for lower consumption of fat milk. While domestic consumption of butter somewhat fell, exports had registered a substantial increase. Since stocks had also increased substantially, it was imperative that exports would have to be increased further. About 3,000 tons had so far been exported in the second quarter and contracts for exports of another 1,000 tons had already been made. There was a need for further exports of about 2,200 tons during the rest of the year.

25. The Finnish delegate informed that milk production in 1987 was expected to remain unchanged at the level of 1986, thus implying that butter production would also remain unchanged at last year's level of 72,000 tons. Domestic consumption of butter had, however, continued to

decline by nearly 5 per cent this year. As a result, exportable surplus had increased from an estimated 15,000 tons to 23,000 tons for 1987. Only half of this quantity had so far been contracted, and for the remaining 10,000 tons or there about, markets still had to be found. Stocks, which normally were below 10,000 tons at this time of the year, had increased to 15,000 tons, with an indication that they would increase further by the end of the year. In reply to the Australian question of whether the remaining 10,000 tons for which markets had yet to be found included any export quantities under the 2 June 1987 decision, he confirmed that this quantity included about 2,500 to 3,000 tons of such butter.

26. The representative of South Africa said that as a result of a substantial fall in milk production, as foreshadowed earlier, the output of all dairy products was smaller this year. Production of butter in the first quarter was substantially down and was expected to aggregate much lower for the entire year than last year. Consumption was also lower during the first quarter, but remained within the average figure for this time of the year. Stocks were somewhat reduced and were expected to remain lower during the rest of the year.

27. The Polish delegate said that the general dairy situation had relatively improved. Butter output during the first quarter of 1987 at 47,315 tons was nearly 14 per cent more than its level in the corresponding period of last year. Domestic consumption of butter at 66,280 tons was also about 6 per cent higher in the first quarter over its corresponding level of 62,500 tons last year.

28. The observer of the Economic Commission for Europe told the Committee that cow numbers in Eastern Europe at the beginning of 1987 were about 3 per cent smaller than a year earlier, including a marked decline of about 6 per cent in Poland. Only Romania had reported a small increase. The dairy herd on State and collective farms in the USSR on 1 May 1987, amounted to 29.1 million head, representing a decline of about 0.7 per cent compared to a year earlier. In 1986, milk production in Eastern Europe remained practically unchanged. This was mainly due to a reduced output of

Poland, the main producer of the region. All other countries reported increases varying from 2 to 4 per cent. In the USSR, milk output in 1986 was about 3 per cent higher than in 1985. This increase was achieved with reduced cow numbers, thus indicating a sizable increase in milk yields, i.e. 6 per cent. For 1987, the forecast for Eastern Europe as a whole was an increased milk production of 1 to 2 per cent. With unfavourable weather conditions and reduced cow numbers a stagnation in production was anticipated. For the USSR the situation was currently more satisfactory as milk deliveries and yields were up by 5 per cent.

29. Butter production in Eastern Europe registered a decline of about 0.5 per cent during 1986, mainly because of a drop of 6 per cent in the output of Poland. In 1987, butter output in Eastern Europe as a whole was generally expected to increase or remain stagnant while cheese production was expected to increase. In the USSR, butter production from January to May 1987 went up by about 11 per cent. If this trend was to continue during the rest of the year, the USSR import demand for butter was likely to be substantially reduced.

Report to the Council

30. In accordance with Article VII:2 of the Arrangement and Rule 22 of the Rules of Procedure, the Committee adopted its report to the Council. This was distributed in document DPC/F/50.

Date of the next session

31. The next session of the Committees will be held on 21-22 September 1987, subject to confirmation by the secretariat. The session of the Committee of the Protocol Regarding Certain Milk Powders will be followed by the Committee of the Protocol Regarding Milk Fat and the Committee of the Protocol Regarding Certain Cheeses.