

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

RESTRICTED
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International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS

Fifteenth Session

Report

Introduction

1. The Committee of the Protocol Regarding Certain Milk Powders held its fifteenth session on 26 and 27 September 1983.

Adoption of the agenda

2. The Committee adopted the following agenda:
 1. Adoption of the report on the fourteenth session
 2. Information required by the Committee:
 - (a) Replies to Questionnaire 1;
 - (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 fourteenth session

3. The Committee adopted the report on its fourteenth session with the amendments communicated by the representatives of the United States and Norway. The report will be distributed as document DPC/P/21.

Information required by the Committee

(a) Replies to Questionnaire 1

4. The Committee reviewed the replies to Questionnaire 1 and requested members which had not yet communicated information for the second quarter of 1983 to do so without delay. In addition, it was pointed out that

replies to Questionnaire 1 relating to the third quarter of 1983 should reach the secretariat not later than 15 December 1983.

(b) Summary tables

5. The Committee had before it a document containing revised summary tables (DPC/P/W/1/Rev.14) prepared in conformity with Rule 28 of the Rules of Procedure and reproducing the information furnished in Tables A and B of Questionnaire 1 regarding skimmed milk powder and whole milk powder. The Committee took note of document DPC/P/W/1/Rev.14.

(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 United States said that production of skimmed milk powder in 1983 was expected to increase by about 5 per cent from a year earlier. In 1984, output of skimmed milk powder could be some 7 per cent lower. Uncommitted stocks of skimmed milk powder on 23 September 1983, at 614,000 tons, had been up 15 per cent from a year earlier. However, they had been significantly below the initial forecasts. By 1 October 1984, government stocks could be up another 6 per cent as production continued to outpace domestic consumption. It was expected that domestic use would increase in 1984 through increased commercial utilization and larger government donations under special programmes for the needy. Also, in 1984 some additional gain was expected in foreign donations under section 416. With regard to prices in international trade, he pointed out that according to certain information, Canada had sold skimmed milk powder to Japan at US\$800 per ton c. & f.; after deduction of transport costs the price on an f.o.b. basis might be around US\$700 to US\$725 per ton. Canada had also offered skimmed milk powder at prices between US\$725 and US\$750 per ton f.o.b. Recent offers of skimmed milk powder by New Zealand to Iran had been made at US\$810 c. & f. per ton, which corresponded approximately to f.o.b. prices between US\$710 and US\$735 per ton. Offers had been made at prices around US\$700 c. & f. West European ports for skimmed milk powder originating mainly in Eastern Europe; these offer prices corresponded approximately to an f.o.b. price of US\$650 per ton. Some offer prices by the EEC had been between US\$750 and US\$800 per ton f.o.b.

8. The representative of Sweden said that production of skimmed milk powder in the first six months of 1983 had increased to 34,300 tons. It was expected that this trend would be levelling off, depending on the decreased deliveries of milk during the summer. Exports in the first eight months of 1983 had increased to 23,800 tons. Export prices of skimmed milk powder had averaged US\$735 per ton f.o.b. in August 1983.

9. The representative of Norway said that production of skimmed milk powder in the first half of 1983 had increased by 17 per cent compared with the corresponding period in 1982. As that level of production was well above domestic consumption needs, Norway had exported 3,700 tons of skimmed milk powder. For the whole of 1983 exports might amount to 4,500 tons. In 1984, however, it was expected that only very small quantities of skimmed milk powder would be exported.

10. The representative of Finland said that production of skimmed milk powder in the first three quarters of 1983 had increased, whereas production of whole milk powder had remained stable. Finland had exported very small quantities of skimmed milk powder in the first half of 1983. Export prices during the second quarter of 1983 had been around US\$1,000 per ton f.o.b. for skimmed milk powder and US\$1,500 per ton f.o.b. for whole milk powder. Subsequently, export prices for milk powders had shown a downward trend.

11. The representative of South Africa said that production of skimmed milk powder had decreased in the second quarter of 1983, owing to a severe drought. At the end of the second quarter, stocks of skimmed milk powder had reached 19,700 tons, which was considered a very high level. It was expected that stocks at the end of the third quarter of 1983 would remain almost unchanged at about 20,000 tons. Great efforts were being made to dispose of those stocks.

12. The representative of Poland estimated that production of skimmed milk powder might reach about 135,000 tons in 1983, or about 35 per cent more than in 1982. Stocks had fallen to 18,700 tons at the end of the second quarter of 1983. Exports had increased to 14,700 tons during the first eight months of 1983, whereas for the whole of 1982 they had amounted to 10,800 tons. The main export destinations in 1983 had been Japan and Algeria, as in 1982. Average export prices, which had been US\$830 per ton f.o.b. during the first quarter of 1983, had fallen to around US\$770 per ton f.o.b. during the second quarter of 1983.

13. The representative of New Zealand said that production of skimmed milk powder for export had reached 157,000 tons in 1982/83. Owing to a planned decrease in cheese production, it was expected that production of skimmed milk powder for export would increase slightly to about 160,000 tons in 1983/84. Present export prices of skimmed milk powder, generally for human consumption, were between US\$740 and US\$770 per ton f.o.b. According to certain reports, however, pricing from the Nordic countries and Poland had been below those levels. It seemed that those countries had now cleared their seasonal surpluses; consequently, prices from those countries and from Canada were tending to increase. His delegation expected that prices would harden, or at least become stable at about US\$750 per ton f.o.b. With regard to whole milk powder, he estimated that production for export in 1983/84 would remain at the same level as in 1982/83, that was to say about 114,000 tons. International demand for whole milk powder had eased and prices had dropped to the present range of US\$1,000 to US\$1,200 per ton f.o.b.

14. The representative of Japan said that in 1982 and at the beginning of 1983 the supply and demand situation of dairy products had been tight. Consequently, the Livestock Industry Promotion Corporation had released, in particular, 22,000 tons of skimmed milk powder in 1982 and 8,000 tons at the beginning of 1983. Since the summer of 1983 the supply and demand situation of dairy products had rather eased.

15. The representative of Hungary pointed out that consumption of skimmed milk powder for animal feed purposes had increased by about 23 per cent in the first six months of 1983, as compared with the corresponding period of 1982. Minor quantities had been exported in the second quarter of 1983 at prices just above the minimum price applicable under the Protocol.

16. The representative of Australia estimated that production of skimmed milk powder might increase by about 5 per cent in 1983/84. Consequently, export availabilities would increase. Present export prices were around US\$770 per ton f.o.b. With regard to whole milk powder, it had been estimated that production in 1983/84 would remain at the level of 1982/83, which was about 50,000 tons. Export prices were at present around US\$1,100 per ton f.o.b.

17. The representative of Argentina said that exports of skimmed milk powder had decreased very substantially in the second quarter of 1983, whereas exports of whole milk powder had considerably increased to 3,600 tons, the main destinations being Chile and Peru.

18. The representative of the EEC estimated that production of skimmed milk powder might show an increase of 14.9 per cent in 1983 as compared with 1982. Stocks of skimmed milk powder on 15 September 1983 had been 1,021,300 tons, a reduction of 27,000 tons compared with 25 August 1983. That reduction had been due to the increase in sales at greatly reduced prices for feeding pigs and poultry. Commercial exports of skimmed milk powder had declined during the first half of 1983. He noted that the share of Community exports in the world market had fallen from 60 per cent in 1979 and 1980 to 41.7 per cent in 1982, and that, consequently, there had been a shift in favour of other suppliers. Export prices for skimmed milk powder were at present within a range of US\$740 to US\$760 per ton f.o.b. Certain quantities had, however, been exported at US\$725 per ton f.o.b. in June 1983. As to whole milk powder, he estimated that production might show a fall of 8.1 per cent in 1983 compared with 1982. Exports had declined in the first half of 1983. He pointed out that the share of Community exports of whole milk powder in the world market had fallen to 66.9 per cent in 1982, from 73 to 75 per cent in 1980 and 1981. That share might be further reduced in 1983. Export prices for whole milk powder had fallen slightly and were now between US\$1,030 and US\$1,060 per ton f.o.b. That fall seemed to be mainly due to the appreciation of the United States dollar.

19. The observer for Canada said that as a result of measures taken to reduce industrial milk production, the production of skimmed milk powder

had substantially decreased during the first half of 1983. Stocks of skimmed milk powder, which had been 41,800 tons on 1 July 1983, were below the level of 1 July 1982. They had subsequently continued to fall, reaching a figure of about 33,500 tons on 1 August 1983. Of that amount, a considerable volume had already been committed for sale. It was expected that for the 1983/84 dairy year some 80,000 to 90,000 tons of skimmed milk powder would be available for export. Deliveries in the form of food aid, which had averaged about 14,000 tons a year during the last years might increase substantially and reach 28,000 tons in the fiscal year 1983/84. In view of the fall in production and stocks and the expected increase in food-aid exports, Canada would probably not make any sales on other markets than its present markets until the second quarter of 1984. Export prices of skimmed milk powder were at present about US\$750 per ton f.o.b. According to certain information, in a recent tender in Japan some East European countries, notably Poland and Czechoslovakia, had quoted prices for skimmed milk powder in a range of US\$645 to US\$673 per ton c. & f. Those prices seemed to his delegation particularly low.

20. The representative of Poland said that his delegation had no knowledge of prices at the levels mentioned by the observer for Canada.

21. The representative of the EEC referred to Article 4 of the Protocol, which provided, inter alia, that in cases where prices in international trade were approaching the minimum prices, participants must notify to the Committee all the relevant elements for evaluating their own market situation. Although they applied to marginal quantities, particularly low prices had been mentioned and he enquired whether the Committee considered that the present situation on the international market justified recourse to the provisions of Article 4.

22. The representative of New Zealand referred to the prices mentioned relating to certain offers or even to certain sales. In his delegation's view, however, those prices were not representative of the general price level. The current representative prices mentioned by his delegation and by other delegations were substantially above the minimum prices. Consequently, his delegation believed that for the time being there was no need for recourse to the provisions of Article 4 of the Protocol.

23. The Committee underlined that the world market situation for dairy products was serious. It noted that the utmost vigilance was necessary and expressed the hope that the development in the market situation would not necessitate recourse to the provisions of Article 4 of the Protocol. The Committee underlined the decisive importance of strict observance of all the provisions of the Arrangement in order to keep market conditions as stable as possible.

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

24. In accordance with the provisions of Article 3, paragraph 3 of the Protocol, the Committee proceeded to review the level of minimum prices for products covered by the Protocol.

25. The representative of Australia recalled that in the previous years the Committee had had before it proposals to increase minimum prices. In his delegation's view, the argument for increases in minimum prices was the fact that the costs faced by producers had increased. In Australia those costs had increased by some 15.5 per cent in 1982 and were expected to increase by some 12 per cent in 1983. Further, in the manufacturing sector of the dairy industry there had also been substantial increases and more increases were forecast for 1983/84. He recalled that in the previous year, some delegations had considered that world market conditions, characterized by increasing stocks and stagnant demand, did not justify an increase in minimum prices. However, in order to retain and improve the credibility of the Arrangement, minimum prices should be increased to a level which would provide meaningful protection for those industries subject to the impact of world market changes, such as the industries of Australia and New Zealand. For reasons of balance of advantages and obligations and of equity, his delegation hoped that it would be possible to make some increase in the minimum prices. Although there were fears that minimum prices might not, in some cases, be respected by private traders, the important point, in his delegation's view, was that the participants in the Arrangement themselves were resolved that these minimum prices be respected. While his delegation was not making any detailed proposal at the present meeting, he noted that certain proposals to increase the minimum prices had been made in 1982. It was the Australian delegation's belief that those proposals could usefully serve as the basis for discussion at the present meeting.

26. The representative of the EEC noted that costs to producers had indeed increased. It was necessary, however, to take account of other elements, such as the trend of the international market situation and fluctuations in the value of the United States dollar on foreign exchange markets. He pointed out that production and stocks had increased, whereas international prices for dairy products had fallen. In addition, certain dairy products had even been exported at prices below the present minimum prices. Furthermore, since 1 October 1981 the United States dollar had appreciated by 29 per cent against the ECU, which might be interpreted as a proportionate increase in the minimum prices. In view of the situation on the international market, the prices which really obtained on that market and the appreciation of the United States dollar, his delegation was not at present able to consider an increase in the minimum prices. If the international market situation were to improve, however, the Community would take the initiative of proposing such an increase.

27. The representative of New Zealand recalled that at the meetings of the Committees in September 1982, his country had made a specific proposal for increases in the minimum prices. He also recalled that with the exception of one participant, all participants had been prepared to support a compromise on minimum price increases. He regretted that a consensus had not been reached in September 1982, when circumstances had been rather different from what they were at the present. However, his comments should not be interpreted as meaning that in New Zealand's view there should not

be an increase now. His delegation had nevertheless to recognize that there had been some evolution of the situation since September 1982. A review of the minimum prices in terms of the criteria listed in Article 3, paragraph 3(b) of the Protocol indicated that the costs faced by producers had significantly increased over the last year. New Zealand had maintained, and still maintained, that the levels of the minimum prices set in 1979 had been too low and that the adjustments made in 1981 had not been adequate. Referring to the comments made on the question of the appreciation of the United States dollar, he said that his delegation could accept that point in part, but one must be cautious about placing too much emphasis on the question of currency movements. With regard to the situation on the international market, he considered that market demand was somewhat weaker and prices somewhat lower than the previous year. In undertaking its review in conformity with the provisions of Article 3, paragraph 3(b) of the Protocol, the Committee should take account, in particular, of the need to maintain a long-term minimum return to the most economic producers and the need to maintain stability of supply. It was becoming increasingly difficult for New Zealand producers to produce milk at the returns they were receiving. Those returns would be decreasing that year by more than 15 per cent in real terms. He added that in the longer term, the need to maintain stability of supply was an important factor. Finally, he recalled that the Committee should have regard to the desirability of improving the relationship between the levels of the minimum prices and the dairy support levels in the major producing participants. Having regard to that criterion, an increase in the minimum prices was justified. In view of all those factors, with the exception of the market situation factor, his delegation could fully support the proposal made by the representative of Australia. He noted that reference had been made to the concept of the credibility of the Arrangement. In that context, his delegation wished to point out that participants had undertaken to take the steps necessary to ensure that the export prices of the products covered by the Protocol would not be less than the minimum prices applicable under the Protocol. In his delegation's view, if, unfortunately, export prices should decline, they should remain at the minimum price applicable under the Protocol. If the Committee decided that year to increase the minimum prices that year on the basis of the proposals made in 1982, the new minimum prices would be very close to market prices, when the fall of those prices by US\$200 to US\$300 per ton in one year was taken into account. On the other hand, his delegation would not wish importing countries or countries which were not parties to the Arrangement to interpret a present decision to increase the minimum prices as an attempt to forestall a possible trend of the market situation. The level of minimum prices should be considered as an absolute disaster level for the most efficient producers. In his delegation's view that was another aspect of the concept of the credibility of the Arrangement. He reiterated that several factors would justify an increase in the minimum prices, in particular rising costs to producers. If a consensus could be reached in favour of increasing the minimum prices, his delegation would, of course, support it. However, for the reasons already mentioned his delegation had decided to refrain from proposing specific increases in the minimum prices at the present session.

28. The representative of the United States said that his delegation did not believe that an increase in the minimum prices was consistent with the current supply and demand situation. He considered that market prices might indeed weaken. The minimum prices should not be brought up to market price levels. A minimum price at or near the market price level had a potential for disrupting free trade in the international market. His delegation did not believe that it would be appropriate to increase the minimum price at the present time.

29. The spokesman for the Nordic countries said that, considering the present market situation and currency fluctuations, the delegations of the Nordic countries believed that the minimum prices should be maintained at their present level.

30. The representatives of Japan, Poland, Egypt, Austria, Switzerland and South Africa said that the minimum prices should remain unchanged.

31. It was noted that several factors which would justify an increase in the minimum prices had been mentioned, in particular the rising costs to producers. It was also noted, however, that having regard to the international market situation, an increase in the minimum prices could not currently be considered desirable.

32. The representative of Australia said that his delegation was very disappointed with the result of the discussion. He had hoped that when the market situation improved the Committee would agree to an increase in the minimum prices. His delegation would look forward to a discussion on that question at some later time in better circumstances and, hopefully, with better results.

Other business

Report to the Council

33. The Committee agreed that an oral report giving an account of its discussions at the present session would be submitted to the Council.

Date of the next session

34. In accordance with the preliminary calendar, it was decided that the Committees will meet on 15 and 16 December 1983, subject to confirmation by the secretariat. The sixteenth session of the Committee of the Protocol Regarding Certain Cheeses will be followed by the sixteenth session of the Committee of the Protocol Regarding Milk Fat, which will be followed by the sixteenth session of the Committee of the Protocol Regarding Certain Milk Powders. The Committees will hold a joint meeting in conjunction with their sessions of December 1983, in order to continue the study of government measures to increase domestic consumption of dairy products.