

GENERAL AGREEMENT ON

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Special Distribution

International Dairy Arrangement

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PROTOCOL REGARDING CERTAIN MILK POWDERS

Review of Minimum Prices - September 1992

Notification of New Zealand Proposal on Minimum Prices for Consideration by Participants

The following communication, dated 23 June 1992, has been received from the Permanent Mission of New Zealand.

Introduction

New Zealand proposes that the minimum prices fixed under the Protocol Regarding Certain Milk Powders be increased by US\$200/tonne. More specifically, it is proposed that the minimum prices for the pilot products be adjusted as follows:

Skimmed milk powder - to US\$1,400/tonne (from US\$1,200/tonne);
Whole milk powder - to US\$1,450/tonne (from US\$1,250/tonne);
Butter milk powder - to US\$1,400/tonne (from US\$1,200/tonne).

Background

Article 3:3 of the Protocol Regarding Certain Milk Powders provides that the level of the minimum prices can be modified by the Committee taking account of the results of the operation of the Protocol and of the evolution of the situation of the international market. It also provides that the minimum prices be reviewed at least once a year by the Committee, normally in September, and sets out the factors to be taken into account in such reviews.

New Zealand first raised the possibility of a further adjustment of the minimum prices for milk powder at the March 1991 meetings of the International Dairy Arrangement (IDA). A specific proposal for a US\$200/tonne increase in the minimum prices for each of the milk powder pilot products was put forward at the September 1991 meetings, and subsequently was discussed at succeeding meetings in December 1991 and March 1992.

Although the proposal was not adopted at these meetings, there was considerable and growing support for an upward revision of the minimum

prices. Most reservations about such a move related to the timing of it rather than its justification in terms of the matters to be considered by the Protocol Committee.

Developments since the proposal was first made, and especially since it was discussed in March, have reinforced the desirability of making an adjustment. Any further delay risks damage to the integrity of the IDA minimum pricing system.

Basis for adjustment

The reasons why an upward adjustment of the minimum prices needs to be made are:

- (i) The current minimum prices do not underwrite a viable long-term minimum return to the most economic producers of milk and dairy products. They therefore fail to serve one of their most basic purposes of maintaining stability of supply, thereby protecting the interests of importers as well as the position of exporters.

The current minimum price for whole milk for example would provide a return to a milk producer after the deduction of manufacture, storage, internal transport and other costs, and applying standard yields of less than ECU 5/100 kg. (DM 12/100 kg.).

Skimmed milk powder and butter milk powder are produced in conjunction with butter. Assuming butter is sold at the current IDA minimum price, then the current minimum prices for skimmed milk powder and butter milk powder would produce a return to milk producers of only slightly better than the return for whole milk powder.

- (ii) The current level of the minimum prices is low and out of line with the dairy support levels in major producing participants. The Protocol requires that the Committee have regard to "... the desirability of improving the relationship between the level of the minimum prices ... and the dairy support levels in the major dairy producing participants". But the relationship has deteriorated.

The current minimum price for skimmed milk powder is equivalent to only 51 per cent of the intervention price for skimmed milk powder in the European Community; 56 per cent of the support price for skimmed milk powder in the United States; 44 per cent of the support price in Canada; and 31 per cent of the support price in Japan.

- (iii) Current market circumstances not only justify an increase in the minimum prices but provide the basis for this to be done without disruption to the normal course of international trade in the products concerned.

Milk powder supplies in all major producing and exporting countries are now tight to very tight. This is in sharp contrast to what is normally experienced at this time of the year when supplies are abundant, or even in surplus, because of seasonal peak production in major northern hemisphere producing countries. This year there are no surplus stocks in the United States. New production has been barely able to meet demand and prices have firmed significantly over the last three months as a result. In the European Community, intervention buying support for milk powder has not been required since February, prices are firm and continuing to rise and, though intervention stocks remain substantial, they are being reduced by the regular release of older stocks to animal feed. The export availability of milk powder from other European producers and exporters is also down sharply on year earlier levels, especially in the case of Poland. Southern hemisphere suppliers, Australia and New Zealand, have now completed their production seasons with all of their supplies either sold or firmly committed.

Demand in international markets for both skimmed milk powder and whole milk powder has remained strong through 1991 and to date in 1992, despite the firmer tone of prices. It has been boosted by major purchases by certain countries which operate centralized systems of purchasing imports, notably Mexico and Algeria, and also by expanding consumption in the growing markets of South East Asia and the Middle East. The improved market balance brought about by the curtailment of surpluses in major producing countries has required buyers progressively to reassess their forward supply positions, covering these with firm commercial commitments rather than relying, as they have been able to do in the past, on drawing out stocks from surplus government holdings either in Europe or North America.

As a result of these factors, export prices for skimmed milk powder now are generally to be found around US\$1,800/tonne f.o.b., 50 per cent higher than the IDA minimum price. Prices for whole milk powder are a margin above this, in a range of US\$1,800 to US\$1,850/tonne f.o.b., also about 50 per cent above the IDA minimum.

Summary and conclusion

It is New Zealand's view that the current minimum prices fixed under the Protocol Regarding Certain Milk Powders are out of line with the current and prospective international market situations for the products concerned. An upward adjustment of the minimum prices is justified in terms of the criteria specified in the Protocol. Failure to make an adjustment will dilute the value of the agreement and could contribute to the erosion of its credibility as a force for market stability.

New Zealand therefore proposed that the September 1992 meetings of the IDA approve an increase in minimum prices on a simple linear basis by US\$200/tonne to US\$1,400/tonne for skimmed milk powder, US\$1,450/tonne for whole milk powder and US\$1,400/tonne for butter milk powder.