

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

DPC/P/16

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International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS

ELEVENTH SESSION

Report

Introduction

1. The Committee of the Protocol Regarding Certain Milk Powders held its eleventh session on 27, 28 and 30 September 1982.

Adoption of the agenda

2. The Committee adopted the following agenda.

1. Adoption of the report on the tenth 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. Establishment of a group of experts - proposal by New Zealand
6. Other business

Adoption of report on the tenth session

3. The Committee adopted the report on its tenth session. The report will be distributed as DPC/P/15.

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 in respect of the second quarter of 1982 to do so without delay. In addition, it was pointed out that the replies to Questionnaire 1 relating to the third quarter of 1982 should reach the secretariat not later than 15 December 1982.

(b) Summary tables

5. The Committee had before it a document containing revised summary tables (DPC/P/W/1/Rev.10) prepared under Rule 28 of the Rules of Procedure and covering the information furnished in Table A of Questionnaire 1 regarding skimmed milk powder and whole milk powder. That document also contained a table showing exports of skimmed milk powder and whole milk powder by destination (years 1980 and 1981). In addition, as decided by the Committee at its session in June 1982, the secretariat had included in that document a summary table on consumption of skimmed milk powder. The Committee took note of document DPC/P/W/1/Rev.10.

(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 recalled that at the previous sessions of the Committees he had indicated that his authorities were extremely concerned about the dairy situation and the mounting surpluses in the United States. He stated that new legislation, designed to bring milk production into balance with consumption, had been enacted in August 1982. Under this new law, the price support would remain until 30 September 1984 at \$13.10 per 100 lb. for manufacturing grade milk, with 3.67 per cent fat. This support price was the minimum allowed under the dairy legislation. Effective 1 October 1984 the price of milk would be supported at the equivalent of the level of parity that \$13.10 represented as of 1 October 1983. The Secretary of Agriculture had been authorized to implement a 50-cent per 100 lb. deduction for all milk marketed. This deduction would begin 1 December 1982. Another 50-cent per 100 lb. deduction had been authorized beginning 1 April 1983. This last deduction could be refunded to the dairy farmer should the producer demonstrate that he had reduced his milk production according to the guidelines set. It was expected that the new programme would result in lower milk output. Accordingly, it was anticipated that milk production in 1983 would be approximately the same as in 1982. It was noted that the 1982 production was forecast to be up around 2 per cent from the 1981 level. With respect to skimmed milk powder, government stocks of the product had been at the level of some 543,300 tons at 24 September 1982, the average age of those stocks being 365 days. It was anticipated that production of skimmed milk powder would decrease somewhat in 1983 as a result of the new dairy programme.

8. The representative of the EEC expressed the view that the measures adopted by the United States to reduce milk production and make producers responsible could be considered as positive. He underlined that keen concern was being felt over the considerable quantity of stocks of dairy products held by the United States. He recalled that at the session of the Committees in June 1982 the United States delegation had stated that that country intended to adopt a responsible attitude with respect to commercial

exports, in order to avoid any disruption of the international market. It was to be hoped that in future the United States would continue to endeavour to avoid any disruption of the international market, which was currently characterized by a general increase in stocks.

9. In reply, the representative of the United States recalled the statements made by his delegation at the June 1982 sessions, namely that with respect to commercial exports his country intended to adopt a responsible attitude. Several possibilities for disposing of surplus stocks were currently under study, but no decision had yet been taken. The world market situation for skimmed milk powder was currently not satisfactory. According to certain reports, competition was likely to be very keen in that market with export prices continuing to weaken to a level around US\$850 per ton.

10. The representative of the EEC said that the world market for skimmed milk powder was becoming overloaded. The offer prices or selling prices of certain exporters were reported as between US\$820 and US\$870 per ton f.o.b. Several purchasers faced with financial difficulties were pursuing a very cautious policy in regard to dairy products in general. In the view of his delegation, world trade in skimmed milk powder would probably slow down. Being aware of that situation, the Community was making a special effort to dispose of most of its stocks internally. In addition to permanent measures, special measures were currently being applied to encourage utilization of skimmed milk powder in "pig and poultry" compound feedingstuffs. In addition, a programme was under consideration for speeding up disposal of skimmed milk powder at greatly reduced prices for animal feed. Stocks of skimmed milk powder, which had been at the level of 574,455 tons at 16 September 1982, could be between 500,000 and 550,000 tons at the end of the year due to the additional measures adopted to encourage utilization in animal feed. That effort was to be continued in 1983. It was to be hoped that other participants would take the necessary measures to maintain equilibrium in the international market for skimmed milk powder. With respect to whole milk powder, export prices were currently in a fork between US\$1,370 and US\$1,400 per ton f.o.b. The difference in price in relation to the preceding quarter was essentially due to appreciation of the United States dollar.

11. The representative of New Zealand said that manufacturing milk production for the 1981/82 season ended 31 May, had been almost the same as in 1980/81. The 1981/82 result had been due to better than average production conditions at the end of the season, and production had continued for rather longer than normal. Output for 1982/83 had been a little slower getting under-way, as calving had been delayed. By mid-September 1982, however, production had been ahead of that recorded at the same time in the preceding year. He added that it was much too soon to estimate the production in the 1982/83 season. It was, however, anticipated that production in the 1982/83 season would be very close to or slightly higher than that of the 1981/82 season. With regard to the statement made by the representative of the United States he said that his delegation appreciated

the efforts made by the United States Administration to hold price support and to encourage reduction in stocks. However, his country was still concerned about the present level of stocks in the United States. New Zealand was still looking to the United States to exercise the same degree of responsibility as in the past and not subsidize its exports of dairy products. With respect to skimmed milk powder, New Zealand intended to reduce output in 1982/83. Export prices were currently in the vicinity of US\$950 per ton f.a.s. However, some exporters had sold small quantities of skimmed milk powder at lower prices in order to remove temporary surplus stocks. He stressed that the major exporters, the EEC and New Zealand, were trying to maintain prices. New Zealand sales were at present somewhat lower but this price competition should be seen as temporary. With regard to whole milk powder he said that prices were at the level of US\$1,400 per ton and demand continued to be firm.

12. The representative of Australia said that milk production had been trending down for many years. However, in the 1981/82 season production had increased by 0.3 per cent to total 5,199 million litres. The immediate outlook for milk production was uncertain because of severe dry seasonal conditions. Milk production for the 1982/83 season was currently forecast at around 5,170 to 5,190 million litres. With regard to skimmed milk powder, he estimated that some 40,000 tons would be available for export in 1982/83. Australia had been encountering some price competition from other origins but it would be endeavouring to sell skimmed milk powder at around US\$930 to US\$950 per metric ton f.o.b.

13. The representative of Switzerland said that the livestock census made in April 1982 had shown a decline by 1.4 per cent in the number of dairy cows and by 5 per cent in the number of heifers for breeding in relation to the preceding year. Consequently, milk output was not expected to increase. Nevertheless, some increase could result from improvement of genetic strains of dairy cows. In spring 1982, the fodder season had begun late because of weather conditions, resulting in additional slaughterings, with the consequence that milk production in summer 1982 had been down about 5 per cent in relation to the corresponding period of 1981. Output of skimmed milk powder and whole milk powder had probably declined in the third quarter of 1982 because of the reduction in milk output. In the fourth quarter of 1982, production of skimmed milk powder and whole milk powder was expected to be at the same level as in the corresponding period of 1981.

14. The representative of Sweden recalled that in May 1982 the negotiations between the farmers' and consumers' delegations concerning the price regulation during the next two years had been concluded. The price regulation period would extend from 1 July 1982 to 30 June 1984. Special attention had been given to measures aiming at limiting production and promoting consumption; the only measure in force from 1 July 1982 was the abandonment of delivery additions for dairy farmers, sixty-five years or more of age. With regard to skimmed milk powder, she said that production had increased in the second quarter of 1982. Stocks at the end of June 1982 were at 15,500 tons. In the second quarter of 1982, average export prices

had been in the vicinity of US\$885 per ton f.o.b. In reply to a question regarding the level of export prices quoted by Sweden, she said that a recent offer had been made at a price between US\$855 and US\$865 per ton but the contract had not been awarded to her country because other exporters had quoted lower prices.

15. The representative of Norway said that milk production had increased by 1 per cent in 1981. It was estimated that production would increase by 2 to 3 per cent in 1982. The farmers' organizations and the government had agreed to introduce a two-price arrangement based on quotas for the individual producer from 1 January 1983. The price of milk delivered beyond the quota which the individual producer had been allocated would be NOK 1 per litre. The average price had been NOK 2.14 per litre in 1981. In order to reduce the number of milk cows a slaughtering premium had been introduced. Output of skimmed milk powder went exclusively to domestic consumption, any surpluses being used for animal feed.

16. The representative of Finland said that milk production had declined in 1981 as a result of unfavourable weather conditions. The decline was also due to the various measures carried out to reduce milk production. Deliveries of milk to dairies had decreased by 6.7 per cent in the first half of 1982. However, since July 1982 favourable weather conditions had affected the production. Therefore, it was expected that milk production would decrease by about 3.4 per cent in 1982 as compared to 1981. It was furthermore anticipated that milk production would remain stable in 1983 as compared to 1982. With respect to whole milk powder, output was expected to decline in 1982 to some 25,000 tons, as against 28,000 tons in 1981. Exports, exclusively to the USSR, could also be down to between 23,000 and 25,000 tons in 1982, as against 28,000 in 1981.

17. The representative of South Africa said that milk production was tending to increase while consumption was decreasing. He added that measures would be taken to maintain the balance. With regard to skimmed milk powder, he estimated that stocks would reach some 7,000 tons at the end of the third quarter of 1982.

18. The representative of Poland said that the dairy herd had declined sharply in 1980, from 6,048,000 head to 5,955,000 head. The downtrend had continued in 1981, to the level of 5,757,000 head. More recently, some recovery had been noted and the results of the livestock census made on 1 June 1982 indicated a dairy herd of 5,835,000 head. Milk deliveries had declined from 10,000 million litres in 1980 to 9,264 million litres in 1981. Some recovery had then been recorded and milk deliveries in 1982 were estimated at around 9,280 million litres, slightly up from the preceding year's level. With respect to skimmed milk powder, stocks at the end of the second quarter had been fairly low, around 11,500 tons. Poland exported only small quantities of the product. International prices were currently dropping back and the market situation for the product was deteriorating.

19. The representative of Japan said that milk production had reached 6,610,000 tons in 1981, a 1.6 per cent increase over the previous year. Milk production had increased by 0.8 per cent in the period January to July 1982 as compared to the corresponding period of 1981. It was expected that production would slow down in the calendar year 1982 as a result of adjustment measures taken by the Government as of 1979. Consumption of milk for drinking had increased by 1.3 per cent in the period January to July 1982. In the same period, consumption of milk for processing increased by 0.3 per cent. In the second half of 1981 domestic market prices of dairy products had remained firm, and this firmness seemed to have continued in 1982. With regard to skimmed milk powder, he said that stocks at the end of the second quarter of 1982 had declined as compared to their level at the end of the second quarter of 1981.

20. The representative of Hungary said that production, consumption and trade in respect of milk powders had remained virtually stable in the first half of 1982 in relation to the corresponding period of 1981.

21. The observer of Canada said that between 1 August 1981 and 1 August 1982 the number of milk producers had fallen by about 6 per cent. It was expected that the dairy herd would fall in 1982. With regard to skimmed milk powder, he said that production, exports and consumption had increased in the first half of 1982 as compared to the corresponding period of 1981. Stocks at the end of June 1982 had been 22 per cent higher than those at the end of June 1981. It was estimated that production of skimmed milk powder in the dairy year 1982/83 (beginning on 1 August 1982) would decline a little under 146,000 tons compared to 156,000 tons in 1981/82. Disappearance might follow the declining trend of production. It was expected that stocks would be reduced.

22. The representative of the EEC noted that Canada's exports of skimmed milk powder had recently been increasing. According to certain reports, recent prices for that country's exports of the product had been considerably lower than those quoted by other exporters such as the EEC and New Zealand.

23. The observer of Canada said that current Canadian export prices were between US\$850 and US\$900 per metric ton. Export prices had declined as compared to the second quarter of 1982. He pointed out that Canada had been selling skimmed milk powder in competition with other exporters which had been quoting prices around US\$850 per metric ton.

24. The representative of New Zealand said that the market was currently experiencing increased price competition, notably from Canada. In the view of his delegation, it was not in Canada's interest to offer prices lower than those of other exporters. He urged Canada to pursue a price policy more in line with the existing levels.

25. In conclusion to the discussion concerning the market situation, the representative of New Zealand said that the market for skimmed milk powder had become rather more fragile over the last year. He noted that the appreciation of the United States dollar had resulted in some reduction in effective export prices. He pointed out that large stocks in the United States had contributed to some extent to the fragility of the market, although the United States had taken steps to tackle this problem. However, in the view of his delegation the market for skimmed milk powder was not fundamentally weak and the conditions were favourable for the firming of the market. A clear assurance by the United States that it would not be subsidizing exports would be a factor contributing to firm the market. His delegation hoped that the producing countries by their policies would support this trend.

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

26. In accordance with Article 3:3 of the Protocol, the Committee reviewed the level of the minimum prices for products covered by the Protocol. The Committee had before it proposals by New Zealand and Australia to increase the minimum prices (see documents DPC/P/W/8, DPC/F/W/7, DPC/C/W/7, DPC/P/W/10, DPC/F/W/9, DPC/C/W/9). No consensus was reached on a modification to the minimum prices.

27. The representative of New Zealand believed that the increases proposed in the minimum prices were justified. His authorities would be very disappointed that the decision to adjust minimum prices had not been taken. He pointed out that market conditions were not quite as firm as they had been a year earlier, particularly in respect of skimmed milk powder and that that understandably had made it more difficult for some participants to agree to adjustments in the minimum prices. He noted that almost all participants had been prepared apparently to rally to a compromise. He emphasized the importance for the future of the Arrangement that all participants appreciate fully the need for a spirit of compromise if the Arrangement was to be effective and to retain its credibility as an instrument capable of contributing to the stability of the international trade in dairy products.

28. The representative of Australia said that his delegation was very disappointed that the decision to increase minimum prices had not been taken. He believed that the increases proposed in the minimum prices were justified. His delegation was concerned that the market might interpret that situation as a signal of a loss of confidence which would lead to a weakening in prices. His delegation was even more concerned that the market might interpret that situation as a sign that those countries holding large stocks of dairy products, particularly the United States, were about to unload a fairly sizeable amount of dairy products on to the world market. He underlined that the Australian dairy industry was already very concerned about indications in some markets, particularly the Japanese market, that buyers were becoming a little hesitant, in the expectation that a vast

amount of dairy products would be available for them at distress-type prices. His delegation thought that it would be possible to some degree to retrieve that situation. For that reason, his delegation hoped that the United States would make another clear and very firm statement of its intentions about disposal of its surpluses and about the general international requirements concerning the disposal of such surpluses on concessional terms. He concluded his statement by emphasizing the importance of co-operation and a responsible attitude by participants for maintaining international market stability.

Establishment of a group of experts - proposal by New Zealand

29. The Committee had before it a document containing a proposal by New Zealand for the establishment of a group of experts to assess government programmes undertaken to expand consumption of dairy products (DPC/P/W/9, DPC/F/W/8, DPC/C/W/8). The Committee also had before it a document on policies and measures affecting domestic consumption of skimmed milk powder and butter. This document, based mainly on replies to Questionnaire 5 received by the secretariat before 31 August 1982, had been prepared in response to the request made to the secretariat by participants at the sessions in June 1982 (DPC/P/W/7, DPC/F/W/6).

30. The representative of New Zealand underlined that the basic objective of the proposal was the desire to foster increased consumption of dairy products. His country was proposing that an assessment be made of measures undertaken by member governments to expand domestic consumption of dairy products, especially in the major consuming markets. The aims of the proposed study should be to pool information, assess and compare experience with such programmes in greater depth than had been achieved hitherto, either within the Protocol Committees discussions or through the existing replies to Questionnaire 5. He noted that the document prepared by the secretariat on the basis of replies to Questionnaire 5 was interesting and helpful. However, this document contained statements tending to be of a general policy nature rather than being particularly specific. The proposed study would improve the knowledge of participants of the effectiveness of various accounts of domestic consumption expansion measures. His delegation proposed that the additional data required for such a study be considered and assessed by a group of experts which would meet informally. He said that the suggested procedure and time sequence that could be employed in order to carry out the study were described in the proposal communicated by his country. He invited the participants to endorse this approach.

31. The representative of the United States said that his delegation was fully sympathetic with this approach to the question. His country was ready to provide information as the resources allowed. However, for budgetary reasons the availability of technical experts posed a problem for his country. Furthermore, he considered that if an expert group was established, its meetings should fit within the period presently used for the sessions of the Protocol Committees and the Council.

32. The representative of Australia said that his delegation could support the proposal of New Zealand. He raised the question whether each expert would be nominated as a member representative or whether he would be invited on the basis of his personal capacities. In the latter case, some financial problems could arise for his delegation.

33. The representative of the EEC said that delegations participating in Committee's work should include experts, and if the establishment of a group of experts was necessary, all delegations should be in a position to provide for participation by experts. He wondered whether it was essential to establish a separate group when discussion on the item could be included in the agenda of the Committees and take place before or after their sessions. For budgetary reasons, the Community might not be able to arrange for attendance by several experts. He hoped nevertheless that his authorities would be able to make an additional effort.

34. The representative of the United States said that his delegation shared the view that the question of consumption should be included among the Committee's activities to the extent that experts were taking part in their work. Instead of establishing a separate group, participants should give closer attention to making optimum use of the time allotted for sessions of the Committees and the Council.

35. The representative of Switzerland said that it would be useful to have a discussion on consumption of dairy products. His delegation shared the view that such a discussion could take place in the context of sessions of the Committees of the Protocols.

36. The spokesman for the Nordic countries said that the delegations for which he spoke were not opposed to establishment of a group of experts. For budgetary reasons, however, the Nordic countries would have difficulty in arranging for the participation of experts.

37. The representative of Romania said that his delegation could not give any undertaking regarding the participation of experts in the event that a group of experts was established.

38. The representative of Poland said that her country was in a different situation from that of other participants and accordingly her delegation was not in a position to participate in such a group, while remaining disposed to furnish all necessary information.

39. The representative of Bulgaria said that it would be useful to undertake the study proposed by New Zealand. Referring to the list of basic data annexed to the New Zealand proposal, he said that his country would endeavour to furnish full information. If it was decided to have a full discussion on consumption, experts could participate in it.

40. The representative of Uruguay said that the New Zealand proposal was interesting and his country was prepared to furnish all necessary information. His authorities would have problems, however, in sending experts.

41. The representative of South Africa said that his delegation was sympathetic to the proposal made by New Zealand. However, he could not commit his authorities to send an expert.

42. The observer for Canada said that his Government was ready to participate in the work of a group of experts if so invited, but could not make any commitment on behalf of his authorities regarding the composition of the delegation.

43. The representative of New Zealand noted that participants had been of the view that the proposed study would be useful. It would clearly not be possible, however, to reach agreement at the current session on establishing a group of experts. He suggested that at the time of the sessions of the Protocol Committees in December 1982, an informal meeting might be held to examine, as a first stage, the points to be incorporated in an informal questionnaire aiming to collect additional information concerning this question of consumption.

44. The representative of Argentina said that his delegation could give no commitment in that respect. The provisions regarding information were established by Article III of the Arrangement and could not be amended by any group of experts or at any special session of the Committees.

45. It was decided that at a special meeting on the occasion of the Committees' sessions in December 1982, consideration would be given to the document on policies and measures affecting domestic consumption of skimmed milk powder and butter (DPC/P/W/7, DPC/F/W/6), as updated by the secretariat, and in addition to the question of information still needed for assessing government programmes undertaken to expand domestic consumption of dairy products. Delegations interested in these tasks will be invited to furnish information on the basis of which the examination can be pursued.

Other business

Report to the Council

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

Date of next session

47. In accordance with the preliminary calendar, it has been decided that the Committees will hold their twelfth sessions consecutively on 15, 16 and 17 December, subject to confirmation by the secretariat. The session of the Committee of the Protocol Regarding Milk Fat will be followed by the session of the Committee of the Protocol Regarding Certain Milk Powders, then the session of the Committee of the Protocol Regarding Certain Cheeses.