

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## International Dairy Arrangement

### COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS

#### Twenty-Fourth Session

#### Draft Report

#### Introduction

1. The Committee of the Protocol Regarding Certain Milk Powders held its twenty-fourth session on 16-17 December 1985.

#### Adoption of the agenda

2. The Committee adopted the following agenda:
  1. Adoption of report on the twenty-third session
  2. Information required by the Committee
  3. Sales under derogations
  4. Review of the market situation for products covered by the Protocol
  5. Adjustment of minimum prices according to exchange rate fluctuations
  6. Adoption of report to the Council
  7. Date of next session

#### Adoption of report on the twenty-third session

3. The Committee adopted the report on its twenty-third session. This was distributed as document DPC/P/38.

Information required by the Committee

(a) Replies to Questionnaire 1

4. The Committee reviewed the replies to Questionnaire 1 and requested participants who had not communicated such information in respect of the third quarter of 1985 to do so without further delay. They were also requested to submit information regarding the fourth quarter of 1985 and annual data for that year by 14 March 1986 at the latest.

(b) Summary tables

5. The Committee reviewed the summary tables based on information provided by participants in Tables A and B of Questionnaire 1 in respect of certain milk powders. The Committee took note of document DPC/P/W/31.

Sales under derogations

6. The Committee took note of document DPC/P/W/30 which contained information up to end September 1985 on exports of skimmed milk powder and butter milk powder under the derogation provided for in Article 3:5 of the Protocol. It also noted that no further notification had been received since then.

Review of the market situation for products covered by the Protocol

7. The representative of Switzerland said that the situation in the skimmed milk powder sector had become problematical due to a sustained fall in domestic consumption. In order not to exceed their quota, the farmers preferred to give their calves fresh milk instead of skimmed milk powder which in turn led to higher stocks. The government had planned to export 8,000 tons of skimmed milk powder at prices higher than the GATT minimum, but the possibility of sales of certain quantities below this minimum could not be excluded.

8. The Swedish delegate stated that the output of skimmed milk powder in the third quarter of 1985 was lower than in the corresponding period of the previous year and the down-trend seemed to continue in the fourth quarter. Domestic consumption was also 500 tons lower than in the corresponding period of last year. Exports at 5,000 tons in the third quarter were 16 per cent lower than in the corresponding period of 1984 and were expected to aggregate 28,700 tons in 1985 as compared to 28,900 tons in 1984. The average export price in November 1985 was reckoned at US\$738 per ton/f.o.b.

9. The delegate of Norway reported that production of skimmed milk powder was almost entirely disposed of on the domestic market and that exports would be negligible.

10. The representative of Finland said that the surplus output of 15,000 tons of skimmed milk powder in 1985 was expected to be exported. The plans for 1986 were to export 12,000 tons. Output of whole milk powder in 1985 at 33,000 tons was likely to recede to 31,000 tons in 1986, of which a total of 30,000 tons would be exported. Average export prices recorded during this period were US\$751 per ton for skimmed milk powder and US\$1,013 per ton/f.o.b. for whole milk powder. Stocks of skimmed milk powder amounted to 11,900 tons and those of whole milk powder to 10,000 tons on 30 September 1985.

11. The representative of South Africa observed that skimmed milk powder was a balancing product in his country's dairy industry. The output of skimmed milk powder had tended to rise with the continued increase in milk production. Since consumption of skimmed milk powder during the third quarter of 1985 had been low in relation to production, the stocks had risen to 16,400 tons.

12. The delegate of Poland indicated that production of skimmed milk powder in 1985 was projected to increase by 1.9 per cent to reach a level of 155,000 tons. Production in the third quarter of 1985 amounted to 49,300 tons. Exports during this period were estimated to be 12,900 tons; the principal destinations being Japan (2,200 tons), Bangladesh (3,500 tons) and Algeria (6,500 tons). Average export prices for human consumption purposes in the first quarter of 1985 were US\$625 per ton, in the second quarter US\$627 per ton and in the third quarter US\$605 per ton/f.o.b.

13. The representative of New Zealand said that production of skimmed milk powder in the 1985/86 season would be around 170,000 tons compared to 205,000 tons in 1984/85. As a consequence, the industry was not faced with supply pressures. The same appeared to be the case for other major suppliers. Stocks were significantly down and with the expected reduction in production at the end of season, were expected to remain comfortable. As regards whole milk powder, production in 1985/86 could be slightly more than the level of 137,000 tons in 1984/85. Average export price for skimmed milk powder was in the range of US\$750-800 per ton/f.o.b. and for whole milk powder US\$950-1,000 per ton/f.o.b. Barring unforeseen developments such as an increase in the EEC restitutions or the strengthening of the United States dollar, prices were expected to consolidate and remain at those levels.

14. The Hungarian delegate said that production of skimmed milk powder in the first nine months of 1985 dropped by 30 per cent to a level of 18,200 tons, as compared to 26,300 tons in the corresponding nine months of 1984. Consumption also fell due to a 24 per cent decrease in the use of skimmed milk powder for animal feed. While there were no exports, imports totalled 1,500 tons during 1985. With regard to whole milk powder, the situation remained more or less unchanged from that in the previous year.

15. The representative of Japan indicated that Japanese imports of skimmed milk powder in 1984 at 90,288 tons were 2.3 per cent less than in 1983, due to a decrease of 3.3 per cent in imports of skimmed milk powder for animal feed purposes. The LIPC imported 8,000 tons for human consumption to build up its stocks early this year. This together with an increase for animal feed purposes, led to an overall increase of 18 per cent in imports of skimmed milk powder in the first nine months of 1985 as compared to the corresponding period of 1984. Average import price of skimmed milk powder in September 1985 was US\$671 per ton/c.i.f. for animal feed purposes and US\$855 per ton/c.i.f. for human consumption purposes. In reply to a question by New Zealand whether the upward trend experienced in import demand in the first nine months of 1985 was expected to continue in the future he quoted import figures showing an absolute decline from 93,000 tons in 1982 to 90,000 tons in 1984. In his view, the slight recovery in import demand in 1985 must be seen

against the background of a 3.4 per cent increase in Japanese milk production for processing purposes. However, the demand for drinking milk had not increased, and this suggested some caution in projecting future trends.

16. The representative of Australia said that production of skimmed milk powder/butter milk powder in the July-September 1985 period at 34,100 tons was 7.6 per cent lower than the level of 36,900 tons in the corresponding period of 1984/85. Output of skimmed milk powder in July-September 1984 at 34,900 tons went down to 32,100 tons in July-September 1985, while the output of butter milk powder remained unchanged at 2,000 tons. The decline in skimmed milk production was due to a decline in butter production and an increase in casein production. Estimated production of skimmed milk powder/butter milk powder for 1985/86 was 148,500 tons, of which skimmed milk powder was 140,000 tons and butter milk powder 8,500 tons. Domestic consumption during this season was expected to remain stable at around 40,500 tons - skimmed milk powder 38,000 tons and butter milk powder 2,500 tons. Export availability of skimmed milk/butter milk powder was expected to be around 111,000 tons in 1984/86 (on the basis of desirable closing stocks of 10,000 tons) as against exports of 83,300 tons in 1983/84 and 125,200 tons in 1984/85. Compared to 115,600 tons of exports of skimmed milk powder in 1984/85, only 105,000 tons would be exported in 1985/86. Similarly, as against 9,600 tons of butter milk powder exports in 1984/85, 6,000 tons would be exported in 1985/86. The output of whole milk powder in the July-September 1985 period at 12,600 tons was 13.5 per cent above the level of 11,100 tons in the corresponding period of 1984. It was forecast to increase further by 12 per cent in 1985/86 to a level of 50,000 tons, in response to an increase in international market demand. In the event of this not materializing, the milk was likely to be diverted into butter/skimmed milk powder production. Exports in 1985/86 were expected to be close to the level of availability at 38,000 tons, as against 36,200 tons in 1984/85 and 30,700 tons in 1983/84. In regard to the world situation, he observed that international market for skimmed milk powder was firming up and prices for Australian skimmed milk powder were currently being quoted at around US\$750 per ton/f.o.b. However, there were still substantial

quantities of skimmed milk powder which were being delivered against old contracts or at ex-store prices below this level. With regard to whole milk powder, the activity in the international market was limited with prices currently being quoted in the range of US\$950-1,000 per ton/f.o.b.

17. The representative of the EEC did not share the optimism of the Australian delegate that the world situation for skimmed milk powder/whole milk powder had more recently improved. Even though exports of skimmed milk powder had shown some recovery last year, the overall share of the EEC in the world market had receded from 60 per cent to 30 per cent of the total. The EEC production of skimmed milk powder was 9.2 per cent down from a level of 2,101,000 tons in 1984 to 1,907,000 tons in 1985. It was expected to go down further to 1,826,000 tons in 1986. The drop in the preceding three years amounted to 24 per cent or an equivalent of 600,000 tons, due mainly to the introduction of the quota system. Public stocks on 12 December 1985 were in the neighbourhood of 524,253 tons, which were far above the lowest levels of 350,000-360,000 tons during the current year, because the production of milk in the Community was not quite balanced by total demand and exports. The EEC was able to bring the stocks down last year with the help of sales of almost 600,000 tons of skimmed milk powder for pig and poultry feed. This scheme was, however, discontinued in April 1985 because the stocks had come down to their lowest level of about 350,000 tons. Now that the stocks had risen once again, the EEC would have to reintroduce the same scheme to keep them within reasonable limits. Average export price of skimmed milk powder was US\$750-780 per ton/f.o.b. Exports of skimmed milk powder in 1983 amounted to 192,000 tons, the level lowest ever. They rose to 312,000 tons in 1984 and were 269,000 tons in the first ten months of 1985. As regards whole milk powder, production in 1985 at 797,000 tons was about 1 per cent lower than the level of 805,000 tons in 1984. Export prices ranged between US\$980-1,000 per ton/f.o.b. The EEC exports of whole milk powder at 395,100 tons in 1985 were 6 per cent lower than in the previous year, due to severe price competition on the world market. Food aid was 20 per cent down in 1985.

18. The observer of Canada informed the Committee that production of skimmed milk powder in the third quarter of 1985 was 26,970 tons, while its exports aggregated 13,440 tons. Total domestic consumption amounted to 13,540 tons. Stocks dwindled by a slight margin from 30,180 tons at the beginning of the third quarter to 30,170 tons at the end of it. Presently, the Canadian Dairy Commission did not have any substantial quantities of skimmed milk powder for export but by the end of February 1986 small quantities were likely to be sold to traditional customers. It was expected that the downtrend in skimmed milk powder production would eventually be levelled out in 1986-87.

19. The observer from the OECD, providing some statistics on the situation in the United States, said that production of skimmed milk powder in 1985 had risen by some 21 per cent and was expected to surge even higher in 1986. Figures on consumption showed an increase from 208,000 tons in 1984 to 226,000 tons in 1985.

#### Adjustment of minimum prices according to exchange rate fluctuations

20. The discussion on this subject was continued at the joint meeting of the three Protocol Committees, a summary of which is given in the report of the Committee of the Protocol Regarding Milk Fat (Spec(86)1, paragraphs 33 to 44).

#### Report to the Council

21. Pursuant to Article VII:2(a) of the Arrangement and in accordance with Rule 22 of the Rules of Procedure, the Committee adopted its report to the Council. This report was distributed as document DPC/P/39.

#### Date of next meeting

22. The next session of the Committees will be held on 17-18 March 1986, 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 Regarding Milk Fat and then the Committee Regarding Certain Cheeses.