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GENERAL AGREEMENT ON TARIFFS AND TRADE

International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

United States Imports of Casein

Note by the Secretariat

At the fourteenth session of the International Dairy Products Council, the secretariat was asked to keep the Council informed about a study undertaken in the United States concerning United States imports of casein (DPC/25, paragraph 40). The secretariat has received a copy of the study: Effects of Casein Imports, United States Department of Agriculture, April 1986. A summary of the study is reproduced below for the information of the members of the Council.

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1. This study, requested by the Food Security Act of 1985, examines the economic implications of imported casein used in food, feed and industrial products and the economic effects of restrictions that might be placed on the availability of these imported proteins. The effects of such restrictions would be felt by manufacturers of products using casein; by consumers of products containing casein; by manufacturers of domestic dairy products; by United States farmers; and by the United States Government through the effect that such a limitation might have on the cost of the dairy price support programme. In addition, restrictions would affect casein-exporting countries and, as a consequence, might affect existing or potential trade agreements.

2. Those who favour import restrictions on casein assert that these imported dairy proteins displace domestic skimmed milk solids in commercial channels and make the cost of the dairy price support programme higher. Suppliers and users of casein do not agree with this view. They argue that these imported dairy proteins are unique inputs that do not displace significant quantities of domestic skimmed milk solids. Some also suggest that certain products would not be produced if imported casein were unavailable.

3. Of the 229 million pounds net imports of casein in 1985, about 196 million pounds were used in manufacturing with about 33 million pounds added to inventory. Major suppliers of casein in 1985 included New Zealand (44 per cent), Australia (5 per cent) and the European Communities (45 per cent). Since the late sixties, there has been no domestic production of casein. The United States support price for non-fat dry milk has made domestic casein production non-competitive.

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4. In New Zealand and Australia, some amount of subsidization does occur but the cost of producing milk is significantly lower than elsewhere. The European Communities subsidizes casein production as a method of disposing of surplus skimmed milk.

5. The end-uses of casein fall into three groups. First, applications (including industrial products, most animal feed and pet food) in which soy proteins or other ingredients could replace casein absorbed about 51 million pounds of casein in 1985. This replacement has already been occurring and would be further encouraged if the price of casein rose moderately.

6. Second, applications (including cheese analogs, some coffee whitener and some animal feed uses) in which skimmed milk solids could replace casein used about 94 million pounds of casein in 1985. This replacement would occur if the price of casein rose to a level where it was equivalent, on a protein basis, to the price of non-fat dry milk (more than double its 1985 price). As the price of casein rises, the quantity of casein used in such applications declines, and consumers buy less of these end-products as they are faced with higher prices.

7. Third, applications (including dietary and pharmaceutical products and most coffee whitener and toppings) which require the special characteristics of casein, used about 51 million pounds in 1985. For such use there are almost no apparent technical substitutes for casein.

8. Under Section 22 of the Agricultural Adjustment Act, the United States cannot completely prohibit imports of casein. The most extreme restrictions that may be imposed are a 50 per cent tariff or a quota equal to 50 per cent of the amount imported during a representative period.

9. Imposition of a 50 per cent quota (based on average 1981-1985 imports) would limit imports to 88 million pounds of casein. The price of casein would rise to the protein equivalent of the non-fat dry milk price. This price would precipitate the replacement of casein with soy, whey and other ingredients. It would also cause a decline in casein use due to decreased purchases of the affected end-products. At these price levels, domestic production of casein would become potentially feasible and cheese analogs might not be a lower cost alternative of natural and especially to processed cheese. Therefore, a part of cheese analogs would be replaced by non-casein cheese, reducing CCC purchases of cheese and price support programme costs by about US$84-300 million. Consumer expenditures would increase by about US$180 million.

10. A 50 per cent tariff would cause the price of casein to increase to about US$1.44 per pound (US$0.48 greater than the 1985 price of US$0.96). This price is still lower than the protein equivalent non-fat dry milk price. Therefore, the tariff would cause a shift in some applications to soy, whey or other ingredients, but would not cause much increase in commercial demand for skimmed milk solids. Thus, a 50 per cent tariff would have little impact on the cost of the price support programme. Consumer expenditures would increase by about US$66 million.

11. Either a quota or a tariff would raise prices of casein-using products and some might be priced out of the market. In such a situation, consumers would have fewer alternative products available to them, many at higher prices.