

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

RESTRICTED

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International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS

Twenty-Sixth Session

Report

Introduction

1. The Committee of the Protocol Regarding Certain Milk powders held its twenty-sixth session on 16-17 June 1986.

Adoption of the agenda

2. The Committee adopted the following agenda:
- A. Adoption of report on the twenty-fifth session
 - B. Information required by the Committee:
 - (a) Replies to Questionnaire 1
 - (b) Summary tables
 - (c) Other information
 - C. Sales under derogations
 - D. Review of the market situation for products covered by the Protocol
 - E. Adoption of Report to the Council
 - F. Date of next session

Adoption of report on the twenty-fifth session

3. The Committee adopted the report on its twenty-fifth session. This was distributed as document DPC/P/41.

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 first quarter of 1986 to do so without further delay. They were also requested to submit information regarding the second quarter of 1986 by 15 September at the latest.

(b) Summary tables

5. The Committee reviewed the summary tables based on information provided by participants up to the end of 1985 and issued in document DPC/P/W/32/Rev.1. It also took note of the fact that a further revision of these tables would be undertaken by the secretariat as soon as the data for the first quarter of 1986 were available.

(c) Other information

6. The Committee took note of the statistical information which the secretariat had compiled on production, trade (including food aid), stocks and consumption of dairy products in the United States.

Sales under derogations

7. The Committee took note of the fact that no new information regarding the sales of milk powders in accordance with Article 3:5 of the Protocol Regarding Certain Milk Powders had been received since about the issue of DPC/P/W/30 in October 1985, in which sales had been reported by Australia, New Zealand, Poland, South Africa and Switzerland.

Review of the market situation for products covered by the Protocol

8. The spokesman of the EEC informed the Committee that the Council of Ministers had recently decided on the zero growth of the "indicative" price as well as "intervention" prices of skimmed milk powder, keeping it at ECU 1,740.4 per ton in the 1986-87 season. The intervention price in the previous year had been increased by 4.9 per cent when the ratio between the fat and anhydrous content was adjusted. The ratio was to remain unchanged at 48.2/52.8 in 1986/87. As regards production of skimmed milk powder, a continuous decline had been discernible but had now been reversed. The output at 2,095,000 tons in 1986 had increased from 1,949,000 tons in 1985, 2,101,000 tons in 1984 and 2,501,000 tons in 1983. Production of whole milk powder showed an increase from 662,000 tons in 1983 to 819,000 tons in 1984. In 1985, production declined by 2.8 per cent to a level of 752,000 tons, again to recover slightly in 1986 to 760,000 tons. Exports of skimmed milk powder in

1985 amounted to 307,000 tons, a level which was low compared to exports in 1980 and 1981 but comparable to exports in 1984. Average export prices recorded were US\$680 per ton of skimmed milk powder and US\$900 per ton f.o.b. of whole milk powder. The Community was not happy at the evolution of its exports, which had continuously declined so that its share on the world market had come down from 60 per cent in 1980 to 28-30 per cent in 1985. The situation was slightly better for whole milk powder in the sense that the EEC held a stable share of 64 per cent of the world market. The stock situation was, however, more cheerful. Stocks of skimmed milk powder in 1985 at 620,000 tons were significantly lower compared to their level of 984,000 tons on 1 January 1984. The level dropped further to 520,000 tons on 1 January 1986. Since then, however, the stocks began to pile up when unfavourable propaganda launched by New Zealand against the EEC exports as being contaminated as a result of the Chernobyl incident affected its sales to other countries. Currently, the level of stocks was believed to be 700 to 800 thousand tons. Appropriate measures were being taken to reduce the level of stocks. One such measure included the increasing use of skimmed milk powder for feed purposes. The quarterly figures showed that output of skimmed milk powder in the first quarter of 1986 was perceptibly higher than its level in the first quarter of 1985. Consumption, however, compared unfavourably, i.e. 333,000 tons in January-March 1986 as against 525,000 tons in the same three months of 1985, the reduction being both in its use for human consumption and animal feed. Stocks in the first quarter of 1986 were 646,000 tons as compared to 405,000 tons in the same period of last year. Exports were more than halved. In response to a question by New Zealand whether stocks were increasing because the EEC was not using skimmed milk powder for its pig and poultry programme, the representative of the EEC said that Community exports had been adversely affected by the false propaganda carried out in Taiwan by New Zealand. The Australian delegate, however, took the view that EEC stocks were increasing at a monthly rate of 70 to 80 thousand tons merely because the EEC was not willing to take the necessary structural adjustment measures. The EEC restitutions had depressed prices without leading to increased demand in the international market. In reply to another question by Australia, he indicated that all sales had been made at prices above US\$680-690 per ton. No further information could, however, be provided on EEC sales, due to obvious commercial reasons. The Australian delegate nevertheless insisted that prices, which ranged between US\$812-860 per ton during the first quarter of 1986, had taken a plunge by US\$150 since the introduction of the EEC's new flexible refund system and therefore there was, as such, no market for EEC skimmed milk powder. The Community was not willing to admit this fact.

9. The delegate of Japan recalled that imports of skimmed milk powder in 1984 at 90,288 tons were 2.3 per cent below the level of 1983, mainly due to a reduction in imports for animal feed purposes. In 1985, however, imports showed a significant increase of 16 per cent over 1984, i.e. 104,000 tons as compared to 90,288 tons, due to increased imports by L.I.P.C. and more use for animal feed. Domestic production of skimmed milk powder in 1985 increased by 16 per cent to a level of 181,000 tons. The prospects for consumption in 1986 were good due to

good weather conditions. In reply to a question by the EEC, he confirmed that import prices of skimmed milk powder, on a c.i.f. basis for human consumption purposes, averaged US\$823 per ton from the EEC, US\$766 per ton from Australia and US\$819 per ton from New Zealand, and the average c.i.f import price for animal feed purposes was lower at US\$670 per ton from the EEC, US\$724 per ton from Australia and US\$702 per ton from New Zealand.

10. The representative of New Zealand indicated that stocks of skimmed milk powder at the close of the first quarter of 1986, at 93,200 tons, were almost 10 per cent higher than the level of the opening stocks. Output declined in the first quarter of 1986 to a level of 55,800 tons as compared to 62,200 tons in the same period of last year, and the level for 1986 as a whole was expected to be more or less the same as in the previous year. Exports, however, suffered the severest decline of nearly 50 per cent, from 50,600 tons in the first quarter of 1985 to 24,500 tons in the first quarter of 1986. As regards butter milk powder, production was slightly up, but exports during the first quarter of 1986 were nearly one-third less than in the corresponding period of last year. Stocks were, however, down from 18,400 tons at end-December 1985 to 13,200 tons at end-March 1986. As regards whole milk powder, he said that closing stocks showed a considerable increase over their level at the beginning of the year. Both production and exports edged higher, but there was no certainty about trends during the rest of the year. Average export prices ranged between US\$925-1050 per ton f.o.b. Export prices of skimmed milk powder, which had perceptibly firmed up until February 1986, began to decline, due to the EEC's new system of restitutions. Prices receded by US\$150-200 a ton and consequently were in the range of US\$650-700 per ton f.o.b. The price collapse was irreversible so long as the EEC restitutions were in place. As a result of a fall in international prices of skimmed milk powder, the New Zealand farmers had experienced a loss of 43 per cent in their income levels.

11. The Polish delegate informed the Committee that production of skimmed milk powder during the first quarter of 1986 totalled 24,549 tons. Domestic consumption amounted to 20,947 tons, of which 12,266 tons was for human consumption and 8,681 tons for animal feed. Stocks at the beginning of this year were 10,222 tons and came down to 4,208 tons as at the end-March 1986. He drew the attention of the Committee to certain EEC practices which had seriously affected Poland's exports of skimmed milk powder to some of its traditional markets. In providing its producers and exporters with a flexible system of subsidies, under which ad hoc subsidies were given on individual transactions and tenders by member States were placed selectively in response to bids from various markets, the EEC had infiltrated into some of its important traditional markets such as Japan, Tunisia, Algeria, Turkey and Brazil. Following a remark by the EEC that Polish exports might have suffered a setback following the Chernobyl incident, he agreed that this also might have been the case. The Polish Government had already sent its trade representatives to Brussels in order to explain what appropriate measures had been taken to inspect and to control the nuclear radiation levels. It was, therefore, hoped that restrictions on Poland's exports

of agricultural products would soon be dismantled by the EEC. The EEC, however, was not willing on its part to accept that it had captured some of Poland's important markets; while Japan on its part was not in agreement with the Polish statement that its exports had suffered a decline there, the truth, on the contrary, was that Japanese imports of skimmed milk powder from Poland had increased from 3,581 tons in 1981 to 3,300 tons in 1982, 7,800 tons in 1983, 8,900 tons in 1984 and 9,700 tons in 1985. As against this, EEC imports of skimmed milk powder from Poland had amounted to 1,880 tons in 1985.

12. The representative of South Africa reported a slight decline in production in the first quarter of 1986, compared to its level in the same quarter of 1985, from 7,203 tons to 6,518 tons. Domestic consumption was, however, higher at 4,929 tons than in the first quarter of 1985 when it amounted to 3,921 tons. Stocks were lower at manageable levels.

13. The representative of Finland estimated that production of whole milk powder during 1986 would be around 31,000 tons as against 33,900 tons in 1985. Export availability was therefore expected to be lower, between 30,000 tons and 33,000 tons.

14. The representative of Norway told the Committee that production of skimmed milk powder during the first quarter of 1986 was 2,620 tons as against 2,097 tons in the corresponding period of 1985. Domestic consumption during this period was also higher, due mainly to increased use for animal feed purposes. Stocks were more or less the same as in the previous year. Imports were likely to go up, which signified an abnormal situation.

15. The Swedish delegate said that the skimmed milk powder output during the first quarter of 1986 was 2,800 tons lower at 12,000 tons. Domestic consumption was, however, 900 tons higher than in the corresponding quarter of 1985. Exports were also higher, from 6,100 tons in the first quarter of 1985 to 6,800 tons in the same three months of 1986. Average export price was US\$766 per ton f.o.b. reference point.

16. The delegate of Switzerland mentioned that the situation in the skimmed milk powder sector was not normal as the output was decreasing, but the stocks were going up. Stocks had currently reached a level of 16,000 tons as a result of less and less use by the farmers of skimmed milk powder to feed calves. The quota system had further encouraged them to use fresh milk instead of skimmed milk powder. Measures were being taken, however, to encourage the use of skimmed milk powder in the pork industry.

17. The representative of Uruguay stated that production of skimmed milk powder at 330 tons a year was not very significant in his country. Almost 80 per cent of it was being exported, mainly to Brazil and Paraguay. Domestic consumption during the first quarter of 1986 had fallen by 10 per cent. Average export prices at around US\$1,044 per ton were higher than those indicated by other exporters.

18. The representative of Australia indicated that total production of skimmed milk powder/butter milk powder at 27,755 tons during the first quarter of 1986 was 17.2 per cent lower than its level in the corresponding period of 1985. Output of these two products during July 1985 and March 1986 was down by 9.1 per cent. The forecast for 1985/86 (July-June) was 133,200 tons, showing a decline of 10.8 per cent as compared to the level in the corresponding period of last year. Since July 1985 skimmed milk powder production had continued to decline, due to a fall in butter production and an increase in the production of cheese, WMP and casein. Actual exports in 1985/86 were forecast to be 95,400 tons as against 125,200 tons in 1984/85. Domestic sales of SMP/BMP during 1985/86 had fallen by 2.8 per cent compared to their level in 1984/85. Current quotations in the international market for skimmed milk powder were in the range of US\$700-740 per ton f.o.b. As regards whole milk powder, production during the first quarter of 1986 at 17,874 tons had increased by 16.7 per cent as compared to its level in the corresponding period of 1985. Production during the July 1985 and March 1986 period had increased by 21.2 per cent over the corresponding period of last year. Output during 1985/86 was forecast to increase by 14.2 per cent in response to increased export orders. Actual exports in 1985/86 were projected at 40,300 tons as compared to 36,200 tons in 1984/85. Domestic sales of whole milk powder were expected to fall marginally from 11,000 tons in 1984/85 to 10,000 tons in 1985/86. Average export prices of whole milk powder on the international market were in the range of US\$950-\$1,000 per ton f.o.b. It was, however, anticipated that the increase in the EEC export refunds on 16 May 1986 would cause a slide in those prices. In reply to an observation by the EEC representative that Australian exports of skimmed milk powder to Japan had increased dramatically from 11,000 tons in 1982/83 to 37,000 tons in 1984/85, she commended her country's excellent export performance to that market even without the help of any export subsidies. In response to another question by the EEC, she made it clear that exports of skimmed milk powder to India and Nepal had never been made below US\$995 per ton, as was wrongly inferred by the EEC from Table B of Questionnaire 1. All Australian sales had taken place at above the minimum price because of the existing regulations to that effect. Since Australia was only a small exporter of skimmed milk powder, it was not in a position to pull the international prices down as had been alleged by the EEC.

19. The observer of Canada informed the Committee that the output of skimmed milk powder during the first quarter of 1986 at 21,800 tons was more or less the same as in the first quarter of 1985. Exports totalling 9,577 tons, mainly to Senegal, Algeria, Peru, Mexico, Uruguay and the United States, showed a drop of 41.5 per cent over the corresponding period of last year. Domestic consumption amounted to 11,880 tons; and closing stocks at 15,897 tons were a shade higher than their level three months earlier. Production in 1986 was expected to aggregate 102,000 tons, and in 1987 was likely to go up by another 2 per cent. Stocks at the end of 1986 were, however, expected to recede somewhat.

20. The observer from the OECD told the Committee that the United States production of skimmed milk powder was expected to increase sharply during 1986, but consumption was declining somewhat. The increase in stocks, therefore, was expected to remain unabated.

Adoption of report to the Council

21. In accordance with Article VII:2 of the Arrangement and Rule 22 of the Rules of Procedure, the Committee adopted its report to the Council. This was distributed in document DPC/P/42.

Date of next session

22. The next session of the Committees will be held on 22-23 September 1986, 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 Cheeses and then the Committee of the Protocol Regarding Certain Milk Powders.