

GENERAL AGREEMENT ON TARIFFS AND TRADE

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International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS

SEVENTH SESSION

Report

Introduction

1. The Committee of the Protocol Regarding Certain Milk Powders held its seventh session on 28, 29 and 30 September 1981.

Adoption of the Agenda

2. The Committee adopted the following Agenda:
 1. Adoption of report on the sixth 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. Other business.

Adoption of report on the sixth session

3. The Committee adopted the report on its sixth session with an amendment communicated by the representative of the European Economic Community. The report will be circulated as document DPC/P/9.

Information required by the Committee

- (a) Replies to Questionnaire 1

4. The Committee was informed that Questionnaire 1 as revised by the experts at their meeting on 17 June 1981 had been circulated as document DPC/P/W/3. The Committee reviewed the replies to Questionnaire 1 and requested members which had

not yet communicated information for the second quarter of 1981 to do so without delay. In addition, it was pointed out that the replies to Questionnaire 1 relating to the third quarter of 1981 should reach the secretariat not later than 15 December 1981.

(b) Summary tables

5. The Committee had before it a document containing revised summary tables (DPC/P/W/1/Rev.6) prepared in accordance with Rule 28 of the Rules of Procedure and incorporating the data furnished in Table A of Questionnaire 1. The Committee took note of the document. The Committee also noted that the secretariat would endeavour to prepare for the next session summary tables supplemented by percentages that might be useful in reading the documents. The secretariat would also prepare summary tables giving a breakdown of exports by main destinations.

(c) Other information

6. No other information was requested.

Review of the market situation for products covered by the Protocol

7. It was recalled that at the preceding session the Committee had not completed its discussion on consumption of skimmed milk powder and had agreed to continue the discussion at the September 1981 session.

8. The representative of New Zealand made a general statement on the market situation. The 1980/81 season had started slowly with production in the first three months of the season, from June to August 1981, down some 17 per cent on the same period of the preceding season. Conditions were improving, however, and production in the 1981/82 season was likely to be at the same level as in earlier years. It was estimated that the product mix would also not show any significant change from recent seasons other than a slight recovery in cheese production matched by a small drop in butter production. The international market situation was characterized by increased production and sales and by sustained price levels. The stability of the market, the overall improvement in international trade and in returns to agricultural exporting countries could be considered as satisfactory. In the view of his delegation, that satisfactory situation in the international market for dairy products was attributable to four types of factors. Firstly, demand had been encouraged in national markets initially by the policies which had been pursued by a number of important producing countries. In the international market, demand had been strongly developed and maintained by realistic pricing policies and by sound marketing on the part of the major exporting countries. Additional import demand had been identified in the last two years in the USSR and Eastern Europe. The second factor which had influenced the market was the

restraint in the support and export policies by the major producing countries, especially the EEC. His delegation shared the concern expressed regarding the accumulation of substantial surpluses in the United States. His authorities had noted the restraint action taken by the United States in April 1981 to freeze the support price and were looking very closely at the deliberations in the Congress at the present time. Thirdly, he said that reference should be made to the very existence of the International Dairy Arrangement and to the minimum price adjustments that had been agreed in September 1980. This decision had contributed in a major way to enhancing the confidence of producers and sustaining the market which can lead to a greater stability in the future. Fourthly, he mentioned the co-operation which had developed between the major exporting countries in elaboration of the commitments and undertakings which had been set out in the International Dairy Arrangement. He pointed out that international import demand was strong in many of the major consuming areas of the world, particularly in Central and South America, the Middle East and South East Asia. In the view of his delegation, international demand would continue to expand at current and improved pricing levels over the coming year. He pointed out that United States and EEC stocks were high. However, his country had noted with interest the continuing efforts on the part of the EEC to bring down its stocks and was looking forward to a similar action on the part of the United States. He noted also that in other major exporting countries in the past, as Australia and Canada, policies to achieve a closer balance between domestic production and demand were being pursued. He concluded that his delegation was optimistic about the current situation and outlook.

9. The representative of the European Economic Community said that his delegation had already communicated to the Committee, at the preceding session, full information on measures taken to promote consumption of skimmed milk powder. No other participants had furnished such information at the preceding meeting, and he urged them all to do so. At 24 September 1981, public stocks of skimmed milk powder totalled some 344,000 tons. Although the Community was not concerned over the level of those stocks, it had already taken measures on the internal market in order to prevent excessive accumulation of skimmed milk powder stocks in future. The amount of special aid for liquid skimmed milk to be used in animal feed, other than for feeding calves, had been raised from ECU 7.50 to ECU 7.80 per 100 kg. In addition, the amount of aid granted for liquid skimmed milk processed for the manufacture of casein and caseinates had been raised from ECU 5.20 to ECU 5.35 per 100 kg. Those measures were to be applicable from 1 October 1981. Other measures to promote disposal of skimmed milk powder on the internal market could be taken if the stock situation so required. In addition, the refund on exports of skimmed milk powder had recently been adjusted to ECU 37 per 100 kg.

10. The representative of the European Economic Community said that while his delegation concurred with the analysis of the market situation that the New Zealand representative had made, it did not draw such optimistic conclusions. The fairly high level of skimmed milk powder stocks held by the United States was giving rise to some concern. Indeed, those stocks were currently larger in the United States than in the EEC. He asked the United States representative to inform the Committee about measures that could be taken in order to dispose of those surpluses without disturbing the world market.

11. In reply, the representative of the United States said that he was not in a position to furnish a clear answer for several reasons. Given the firm intent of the United States Administration to cope with the surplus problem, the outlook statement and the conclusions of the experts concerning the outlook had been retarded. In the second place, the situation in the United States was strongly influenced by possible budget cuts which might affect consumption and especially disposal programmes. In addition, the new farm legislation including a dairy programme had not yet been passed. However, he emphasized that it was the firm resolve of the Administration to take such price measures as to restore equilibrium on the domestic market and therefore to contribute to the international stability in the spirit of the International Dairy Arrangement. With regard to skimmed milk powder, he informed the Committee that production had slowed down in the second half of 1981. Total domestic consumption had slightly increased in the second quarter of 1981 as compared to the corresponding period of 1980. However, stocks at 1 July 1981 were higher than at the same date of 1980.

12. The representative of the European Economic Community said that skimmed milk powder production in 1981 was not likely to exceed the 1980 level. Exports of skimmed milk powder in 1981 were likely to be smaller than in 1980. World commercial transactions in skimmed milk powder had risen in 1980 to approximately 900,000 tons, i.e., 6 per cent more than in 1979. The share of the EEC in the trade in skimmed milk powder had declined in 1980 to 47.7 per cent as against 53.2 per cent in 1979. With respect to whole milk powder, it had been estimated that exports could be up by about 5 to 10 per cent in 1981. The world market for whole milk powder had been developing substantially and world trade had increased by about 43 per cent in 1980 in relation to 1979, reaching some 800,000 tons. The EEC share in world trade in whole milk powder had dropped back in 1980 to 66.5 per cent, as against 69 per cent in 1979 and 67.5 per cent in 1978. In the view of his delegation, the world market for whole milk powder was sound and continuing to develop. Since the beginning of 1981 international prices of skimmed milk powder and whole milk powder had been fluctuating within a fork between US\$1,000 and

US\$1,080 per ton f.o.b. and US\$1,350 and US\$1,480 per ton f.o.b. respectively. Taking into account the increased value of the United States dollar on currency markets, he wondered whether that price trend would continue, all the more so because some traders in the Community were beginning to encounter certain difficulties in regard to exports.

13. The representative of Australia estimated that milk production for the 1981/82 season could decline by about 1.5 to 3.5 per cent from the previous season. It was expected that consumption of liquid milk would increase by 1 per cent in 1981/82. This meant reduced availability of milk for manufacturing purposes. Skimmed milk powder and buttermilk powder production was likely to increase by about 4.3 per cent in 1981/82, reflecting the diversion of more milk into butter production to meet domestic requirements and some substitution of skimmed milk powder production for casein because of weakening in the international casein market. He estimated that whole milk powder production for the 1981/82 season could decrease by about 13.5 per cent from the previous season to reach some 60,000 tons. His delegation concurred with the analysis of the market situation that the New Zealand representative had presented but, like the EEC delegation, would wish to temper the optimism expressed. In the Australian domestic market, skimmed milk powder prices were coming under increasing competition mainly from whey powder. As a consequence, further quantities of skimmed milk powder might be available for export in 1981/82. Some concern was felt in his country over United States surplus stocks which were burdening the market and the question of their disposal. Furthermore, with respect to casein, Australia was giving close attention to the weakening international market and problems of access. There might in future be some shifting of production from casein toward other dairy products. Export prices for skimmed milk powder were currently in the region of US\$1,040 to US\$1,060 per ton f.o.b. Nevertheless, Australia was encountering some difficulty in selling at those prices on certain markets; in particular, his country was facing increasing competition from the EEC. Whole milk powder sales were restricted mainly to branded pack sales into traditional markets. Bulk sales of a substantial volume were not possible, in particular because of competition from the EEC. In the third quarter of 1981 Australian exports of skimmed milk powder and whole milk powder had been fairly small. In the view of his delegation, the principal factors that could influence the trend in international prices were exchange rate variations, export refunds paid by the EEC, surplus stocks and the marketing of these.

14. The representative of South Africa said that skimmed milk powder production, which had been declining in the first half of 1981, could continue downward in the coming months, a larger proportion of milk being intended for cheese production. Consumption of skimmed milk powder was

expected to remain stable. Imports might reach some 5,000 tons in 1981. Stocks of skimmed milk powder were expected to improve somewhat but they would remain at a relatively low level. With respect to whole milk powder, production had declined in the second quarter of 1981, but could resume in the third quarter. Consumption might slightly decline in the third quarter of 1981 and stocks at the end of September 1981 were expected to be at normal levels.

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

15. In accordance with the provisions of Article 3, paragraph 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 submitted by New Zealand concerning that review (see in particular document DPC/P/W/4-DPC/F/W/4-DPC/C/W/5).

16. The Committee decided under Article 3, paragraph 3, of the Protocol Regarding Certain Milk Powders that the level of the minimum prices specified in that article would be modified to US\$600 per metric ton for skimmed milk powder, US\$950 per metric ton for whole milk powder and US\$600 per metric ton for buttermilk powder. The schedule of price differentials according to milk fat content set forth in Annex Ib of the Protocol Regarding Certain Milk Powders was consequently modified. It was agreed that the decision would take effect at noon on 1 October 1981.

17. The Committee agreed that that decision would be duly recorded in the report and would be the subject of a procès-verbal signed by the Director-General of the CONTRACTING PARTIES to the General Agreement, certifying the entry into force of the new minimum price.

18. The representative of New Zealand thanked all the participants for their co-operation and straightforwardness in the discussions, reflecting quite a degree of agreement on the initial design and evolution of the Arrangement. His delegation considered that the decision just taken concerning the modification of the minimum prices proved that the Arrangement was working effectively.

19. The representative of the European Economic Community said that his delegation could associate itself with the New Zealand representative's statement so far as the final result was concerned. His delegation nevertheless considered that the factors which should be taken into account for the purpose of modifying the minimum prices had not been sufficiently explored. It was to be hoped that at forthcoming sessions delegations would have at their disposal as much up-to-date information as possible concerning the production, consumption, trade, stocks and, in particular,

international prices of the products covered by the Protocols, so that a constructive discussion might be held on the market situation of the products concerned. His delegation had not opposed the consensus reached regarding the modification of the minimum prices. It nevertheless wished to emphasize that the minimum prices should be set at levels to which participants could conform. It also wished to voice the concern it felt at the rather high level of the stocks of skimmed milk powder, butter and cheese held by certain countries. He appealed to those participants which had difficulties with their stocks to take steps to dispose of them on the domestic market so as to avoid disrupting the international market. The Community, for its part, had already taken certain steps and might have occasion to take more in order to dispose of its surpluses on the domestic market, thus safeguarding international trade. In conclusion he called upon all countries participating in the Committee's work to see to it that in the coming year the international market for dairy products continued to develop.

20. The representative of the United States emphasized that his delegation did not believe that the minimum prices should be subject to any automatic increase. In the view of his delegation the minimum prices should be considered as distress prices.

Other business

Report to the Council

21. The Committee agreed that an oral report on the discussions at the present session would be made to the Council.

Date of the next session

22. Under the provisional calendar of meetings, the next sessions of the Committees were to be held from 16 to 18 December 1981. It was decided that the Committees would hold their eighth sessions consecutively on 16 and 17 December 1981 and if necessary 18 December 1981, subject to confirmation by the secretariat. The session of the Committee of the Protocol Regarding Certain Milk Powders would be held on 16 December 1981, followed by that of the Committee of the Protocol Regarding Certain Cheeses and then by that of the Committee of the Protocol Regarding Milk Fat.