

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## International Dairy Arrangement

### COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS

#### EIGHTH SESSION

##### Report

#### Introduction

1. The Committee of the Protocol Regarding Certain Milk Powders held its eighth session on 16 December 1981.

#### Adoption of the agenda

2. The Committee adopted the following agenda:
  1. Adoption of report on the seventh 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. Adoption of report to the Council
  5. Other business.

#### Adoption of report on the seventh session

3. The Committee adopted the report on its seventh session with an amendment communicated by the representative of the European Economic Community. The report will be circulated as document DPC/P/11.

#### 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 for the third quarter of 1981 to do so without delay. In addition, it was pointed out that the replies to Questionnaire 1 relating to the fourth quarter of 1981 should reach the secretariat not later than 15 March 1982.

(b) Summary tables

5. The Committee had before it a document containing revised summary tables (DPC/P/W/1/Rev.7) 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 tables showing exports of those two products by destinations (for the years 1979 and 1980). Reference was made to the difficulties encountered in preparing tables showing exports by region, in particular the fact that the data furnished by certain participants mentioned only one or two countries of destination or gave only a breakdown by regions. For the data in the table to be more detailed, it would be desirable to have a breakdown of exports by countries of destination, reported in metric tons if possible. The Committee considered that more time was needed to examine the tables which could be included in the status report. It decided to revert to the matter at its next session, and took note of document DPC/P/W/1/Rev.7.

(c) Other information

6. At the Council session on 1 October 1981, it had been suggested that the Committees might give particular attention to the question of food aid at their first session in 1982, and it had been pointed out that the secretariat note on food aid operations prepared under Rule 30 of the Rules of Procedure contained material that would be still more beneficial if examined within a framework that the Committees could help to broaden on the basis of all available information. That document nevertheless had some shortcomings that had been mentioned on several occasions. It was noted that detailed replies by participants to the sections of the questionnaire regarding food aid operations would enable the secretariat to prepare more comprehensive tables and furnish a firmer and broader basis for the discussions that the Council was required to carry out under the Arrangement, in particular, regarding programmes envisaged. Accordingly, participants were requested to communicate all relevant data to the secretariat.

7. The Committee decided to give particular attention to the question of food aid at its next session.

Review of the market situation for products covered by the Protocol

8. The representative of the United States estimated that milk production likely would continue to expand through most of 1982. Lower feed prices, coupled with only small gains in farm milk prices, would result in favourable milk-feed price relationships. Thus, year-over-year gains in milk production per cow likely would continue. Low utility cow prices and the lack of both farm and off-farm alternatives to dairying likely would keep cow numbers above year-earlier levels during much of the year. On balance, 1982 milk production might range up to 2 per cent from 1981's record production. With no increase in the support price since October 1980, and with continued large supplies, wholesale prices of dairy products had been relatively flat throughout 1981. This was likely to continue at least through first half 1982. Retail

price gain, relative to year-earlier levels had slowed throughout 1981. In October, retail dairy prices were up 5 per cent from a year earlier, but up less than 2 per cent from the first of the year. For the year, retail prices likely would average about 7.5 per cent above 1980. In 1982, retail dairy prices were expected to rise again, but the rate of gain was expected to slow and average only 3 to 5 per cent higher than in 1981 with farm-to-retail marketing costs contributing most to the increase. Commercial use of milk and dairy products (on a milk equivalent, fat solids basis) during the first nine months of 1981 had been up 0.9 per cent from a year earlier. Following two years of relatively weak dairy product sales, use in 1982 might rise around 2 per cent from 1981 levels. This would result from relatively favourable retail prices during the first half of 1982, and an anticipated improvement in the general economy and consumer income picture during the second half of the year. Commercial stocks of dairy products this summer had been below year-earlier levels. Industry holdings of milk fat had been down 15 per cent from last year on 1 October, while stocks of solids not fat had been about 5 per cent less. The decline in stock levels held by the industry had occurred as the industry moved large quantities to the Commodity Credit Corporation (CCC) this summer, because of heavy production, sluggish sales, and high storage costs. With no increase in the support price expected the industry did not have much incentive to hold stocks. Industry holdings of dairy products might remain relatively tight through early 1982. If interest rates decline and sales strengthen as expected, commercial stock levels would be rebuilt likely during the flush milk production period next spring. CCC's net purchases of skimmed milk powder from 1 October 1980, through 30 September 1981, had been 787 million lb. (approximately 357,000 metric tons) as compared to 592.2 million lb. (approximately 269,000 metric tons) purchased in the same period a year earlier. On 30 September 1981, CCC's uncommitted inventories of skimmed milk powder had been substantially higher, totalling 368,000 metric tons compared with some 248,000 metric tons on 30 September 1980. With regard to the general market situation for skimmed milk powder, the representative of the United States said that world production in 1981 was expected to be about 4.2 million metric tons, only slightly above 1980. In 1982, little change in output was anticipated. With world-wide use expected to be down, stocks of skimmed milk powder at year end were likely to be up sharply from 1980 levels and some additional increase in stocks was expected by the end of 1982. As in the case of butter, most of the year-end stock increase in 1981 would be in the United States' Government inventories.

9. The representative of the European Economic Community underlined the concern felt regarding the level of United States stocks of skimmed milk powder. In addition, he regretted the lack of information as to the current level of those stocks, since the figures furnished by the United States representative reported the situation at 30 September 1981. It was to be hoped that the United States would take the necessary action to dispose of stocks on the domestic market so as not to cause any international market disruption.

10. In reply to questions, the representative of the United States said that he was not currently in a position to give any indications regarding disposal of surplus dairy products. The new legislative provisions regarding agriculture, which included a dairy sector programme, had not yet been adopted.

11. The representative of Switzerland said that production and exports of skimmed milk powder in 1981 would probably be slightly down in relation to 1980. Output of skimmed milk powder in 1982 was forecast as continuing at the 1981 level, while exports might show a decline. Production of skimmed milk powder was remaining fairly stable.

12. The representative of Sweden said that skimmed milk powder production in 1981 might be somewhat lower than in 1980. Stocks of skimmed milk powder at 30 September 1981 had been below the level one year earlier. Whole milk powder production, which was small in Sweden, might be equivalent in 1981 to output in 1980. There were no stocks of whole milk powder.

13. The representative of Norway said that his country had exported no skimmed milk powder in 1981. Output had been used for domestic consumption, any surplus having been disposed of in the animal feed market.

14. The representative of Finland said that the total amount of milk delivered to dairies was expected to decline by almost 3 per cent in 1981 as compared to 1980. This expected reduction was due mainly to two reasons. Firstly, the production had declined as a result of measures taken to curb the production; the last measure taken had come into force on 1 July 1980. Secondly, the effect of unfavourable weather conditions on cattle feed had resulted in a production decline. It was predicted that milk production would continue to decline also in 1982 by about 3 per cent. With regard to skimmed milk powder, imports and exports were nil. Finland's output of whole milk powder was almost entirely exported to the USSR. Exports were likely to total 28,000 tons in 1981 as against 30,000 tons in 1980 and to be slightly down in 1982 from the preceding year's level.

15. The representative of South Africa said that production of skimmed milk powder in the third quarter of 1981 had been higher than in the preceding quarter while domestic consumption had dropped back. Stocks of skimmed milk powder had increased between the beginning and the end of the third quarter of 1981 because of imports in that period. Consumption was likely to rise slightly in the fourth quarter of 1981. End-of-year stocks might also be up, though without exceeding the levels recorded at the end of 1980. Production of whole milk powder had decreased slightly in the third quarter in relation to the preceding three months, but an increase was likely in the last quarter of the year. Whole milk powder stocks at the end of 1981 were likely to be larger than one year earlier.

16. The representative of Romania said that production of whole milk powder was very small in his country and was entirely taken up by domestic consumption. For that reason, his country did not reply to the questionnaire regarding milk powders.

17. The representative of New Zealand said that milk production decreased by 4.3 per cent in the third quarter of 1981 as compared to the corresponding quarter of 1980. For the year 1981 as a whole, milk production might be slightly down from the record levels reached in 1980. International demand and prices for dairy products in general were continuing to be firm. New Zealand's offer prices for skimmed milk powder had remained unchanged in the range US\$1,060 to US\$1,100 per metric ton f.a.s. The market for whole milk powder was tight with strong demand particularly from South America and Eastern Europe. Current export prices were around US\$1,530 to US\$1,550 per metric ton f.a.s.

18. The representative of New Zealand informed the Committee that the New Zealand Dairy Board had recently signed a four-year agreement with the USSR for the supply of whole milk powder and butter. Under the terms of this agreement prices would be negotiated at six-month intervals. The value of the shipments of butter and whole milk powder for 1982 were estimated at around US\$130 million. Over the second, third and fourth years of the agreement sales at the actual value were expected in the region of US\$75 million. This agreement was seen as a logical extension of steadily growing business with the USSR. Over the years since 1976, sales had grown from US\$6 million to US\$81 million this year. The current prices for the sales were at normal international levels. The quantities of butter to be shipped in 1982 would be in line with those sold in recent years.

19. The representative of Japan said that production of milk from April to October 1981 had increased by 2.9 per cent as compared to the corresponding period of 1980. Stocks of skimmed milk powder at the end of the third quarter of 1980 had been at 72,000 tons.

20. The representative of Hungary said that milk production had continued to increase in his country in recent months, due mainly to rising domestic demand for dairy products. A slight increase in milk output was likely in 1982 in relation to the preceding year. Production of skimmed milk powder, which might show a decline in 1981, was almost entirely taken up by domestic consumption. Exports had dropped back in 1981, and only very small quantities were likely to be available for export in 1982.

21. The representative of Bulgaria said that milk production had increased slightly in 1980 and 1981. Production of skimmed milk powder and whole milk powder was small and mainly used for domestic consumption.

22. The representative of Austria said that a milk production increase of 4.1 per cent was expected in 1981 in relation to the preceding year. Output was forecast as continuing to rise in 1982, to a level about 3.4 per cent above that for the previous year. Measures had been taken to contain the production increase. With respect to skimmed milk powder, exports had increased considerably in the ten first months of 1981, reaching 16,000 tons as against 6,000 tons in the corresponding period of 1980. Demand continued strong. Stocks had declined and were currently around 8,000 tons, as against some 13,000 tons at the end of 1980. Exports of whole milk powder had increased by about 7.8 per cent in the ten first months of 1981 in relation to the corresponding period of 1980. The principal destinations were Middle Eastern countries. Export prices could currently be considered satisfactory.

23. The representative of Australia said that milk production in the current 1981/82 season was expected to be at or marginally above a level of 5,000 million litres. In the first four months of the current season (July to October 1981) production of skimmed milk powder and buttermilk powder had been around 40,000 tons with some 4,200 tons being exported. Whole milk powder production in that period had been 22,900 tons with 11,137 tons being exported. Skimmed milk powder production for the third quarter of 1981 had been 34 per cent higher than for the same period in 1980. This had reflected higher skimmed milk powder production at the expense of casein, and production levels higher than the preceding season were expected to continue for the remainder of the present 1981/82 season. Consequently, exports of skimmed milk powder might substantially increase in the 1981/82 as compared to the preceding season. Current offer prices for skimmed milk powder were around US\$1,060 per ton f.o.b. With regard to whole milk powder, Australian exports of this product were generally dull. Whole milk powder sales were restricted mainly to branded pack sales. Exports prices were currently around US\$1,450 per ton f.o.b. on a bulk basis. It was expected that production of whole milk powder for 1981/82 would decline by about 13 per cent on 1980/81, reflecting reduced milk production as a result of poor seasonal conditions.

24. The representative of Argentina referred to the communication from his delegation regarding import measures adopted by the Argentine authorities in respect of dairy products (DPC/W/13). Investigations carried out in 1981 had been completed in December of that year and had led to the finding that there was no reason to apply minimum import prices for milk powders coming from Australia, Austria, New Zealand, Sweden and Switzerland. That decision had already been published.

25. The representative of the European Economic Community enquired why the Community countries had not been included among those just mentioned by the Argentine representative.

26. The representative of Argentina replied that a separate investigation was being made regarding Community exports, and had not yet been completed.

27. The representative of the European Economic Community asked why a separate investigation was being made regarding imports from the Community. In the view of his delegation, Community prices were no different from those of the countries mentioned by the Argentine representative. The investigation regarding imports from the Community might take some time. In the view of his delegation, such separate investigations were discriminatory. He asked the Argentine representative for clarifications regarding the investigations.

28. The representative of Argentina said that he would convey to his authorities the remarks made by the representative of the European Economic Community.

29. The representative of the European Economic Community stated that production of skimmed milk powder might be down by 0.7 to 1 per cent in 1981 to around 2 million tons. Human consumption might level off in the vicinity of 300,000 tons in 1981, while consumption for animal feed could decline very slightly to around 1,250,000 tons. Utilization of liquid skimmed milk might drop back in 1981 in relation to the preceding year, but an upturn was possible following the increase in the amount of the special aid granted in respect of liquid skimmed milk for animal feed (other than young calves) and the increase in the amount of aid granted for liquid skimmed milk processed for the manufacture of casein and caseinates. Stocks of skimmed milk powder at 10 December 1981 had totalled 280,000 tons as against 202,000 tons one year earlier. Those stocks were likely to be reduced in the near future because of a special sale at reduced prices currently taking place with a view to utilization of skimmed milk powder in milk feeds for calves. Offer prices were currently between US\$1,050 and US\$1,065 per ton f.o.b. Total exports of skimmed milk powder (including food aid) could drop back in 1981 to between 450,000 tons and 470,000 tons. With respect to whole milk powder, exports were developing satisfactorily, and for 1981 as a whole were expected to be 5 to 10 per cent above the preceding year's level. Offer prices for whole milk powder were currently fluctuating between US\$1,515 and US\$1,550 per ton f.o.b.

30. The observer of Canada said that total farm sales of milk and cream were estimated at 7,288 million litres in 1981 increasing by 1.5 per cent from 1980 levels. Fluid milk sales had been relatively static although there had been a moderate increase in industrial milk sales. It was estimated that skimmed milk powder production would reach 128,000 tons in 1981, an increase of 17 per cent from a year earlier. Skimmed milk powder exports in 1981 would likely be around 55,000 tons, down about 9 per cent from 1980. It was expected that in 1982 skimmed milk powder production was likely to be slightly below 1981 levels. The exportable surplus from the 1982 production was forecast to be 55,000 to 60,000 tons. World stocks of skimmed milk powder at the end of 1981 were likely to be up from a year earlier and some further gain was expected in 1982. World prices were likely to soften somewhat in 1982 from current levels.

Adoption of report to the Council

31. In pursuance of Article VII:2(a) of the Arrangement and under Rule 22 of the Rules of Procedure, the Committee adopted its report to the Council on the work of its eighth session; the report will be distributed as document DPC/P/10.

Other business

Communication from the Permanent Mission of Hungary (DPC/P/W/5)

32. The Committee examined a request presented by Hungary (DPC/P/W/5) for the processes and control measures described in that document to be approved and included in the register of processes and control measures, under Article 3:5 of the Protocol.

33. The representatives of the United States and New Zealand said that they had received no specific instructions regarding the Hungarian request and proposed that the matter be postponed to a later meeting.

34. The representative of Hungary invited participants to make known to his delegation any questions they might have regarding the request in document DPC/P/W/5.

35. The representative of the European Economic Community supported the proposal made by the United States and New Zealand representatives and suggested that it might be useful if the Hungarian delegation were to furnish some clarifications, in particular regarding Section 4 of document DPC/P/W/5. The Hungarian delegation could perhaps furnish in an annex other details regarding the denaturing processes described in that Section, indicating percentage quantities of the additives used.

36. The Committee noted that further time was needed to examine document DPC/P/W/5 in detail and agreed to revert to the Hungarian request at its next session.

Dates of coming sessions

37. At the fifth session of the Council, it had been proposed that, as for the 1981 sessions, preliminary dates should be set for the 1982 sessions and confirmed at the December 1981 sessions of the Committees. The following dates were agreed upon for 1982:

- 29-31 March 1982,
- the Council to meet on 1 and 2 April 1982 -
- 21-23 June 1982,
- 27-29 September,
- the Council to meet on 30 September and 1 October 1982 -
- 15-17 December 1982

It was agreed that, if their work permitted, the Committees could hold their sessions over a two-day rather than a three-day period. For the March sessions (29-31 March 1982), the session of the Committee of the Protocol Regarding Certain Milk Powders would follow that of the Committee of the Protocol Regarding Milk Fat. The opening date of the latter session (29 or 30 March 1982) is to be confirmed later by the secretariat after consultation with delegations.