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International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS

FOURTEENTH SESSION

Report

Introduction

1. The Committee of the Protocol Regarding Certain Milk Powders held its fourteenth session on 27 June 1983.

Adoption of the agenda

2. The Committee adopted the following agenda:
  1. Adoption of report on the thirteenth 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. Other business

Adoption of report on the thirteenth session

3. The Committee adopted the report on its thirteenth session. The report will be distributed as DPC/P/19.

Information required by the Committee

- (a) Replies to Questionnaire 1

4. The Committee reviewed the replies to Questionnaire 1 and requested members who had not yet communicated information in respect of the first quarter of 1983 to do so without delay. In addition, it was pointed out that the replies to Questionnaire 1 relating to the second quarter of 1983 should reach the secretariat not later than 15 September 1983.

(b) Summary tables

5. The Committee had before it a document containing revised summary tables (DPC/P/W/1/Rev.13) prepared under Rule 28 of the Rules of Procedure and covering the information furnished in Tables A and B of Questionnaire 1 regarding skimmed milk powder and whole milk powder. The Committee took note of document DPC/P/W/1/Rev.13.

(c) Other information

6. No other information was requested.

Review of the market situation for products covered by the Protocol

7. The representative of the United States reported on the dairy situation and outlook and furnished updated information on domestic policies and trade measures. It was estimated that milk production for March-May 1983 had increased by 2.3 per cent from the same period of 1982. Continued gains this spring resulted of larger cow numbers and additional output per cow. Herd in March had been 51,000 above year-earlier but was declining and expected to continue to shrink as lower returns for milk, higher feed costs, and improved non-dairy employment opportunities caused dairy farmers to cull more intensively. For all of 1983, cow numbers might only be up 0.3 per cent but output per cow might increase about 2 per cent. Total production was likely to be up 2 to 3 per cent from 61.6 million metric tons produced in 1982. With regard to domestic policies, he informed the Committee that on 16 April 1983, the Department of Agriculture had begun the deduction of 50 cents per 100 lb. on all milk sold by producers. He recalled that numerous legal challenges had been made. By mid-June 1983, approximately \$28.7 million had been received. Funds were being remitted to the Commodity Credit Corporation (CCC) to offset part of the cost of dairy price support programme. The Department of Agriculture had asked for public comment on its proposal to implement the second deduction of 50 cents during the two-month period 1 August-30 September 1983. The Department had proposed for the 1983/84 dairy year beginning on 1 October 1983, that the price of milk continue to be supported at \$13.10 per 100 lb. and the two deductions of 50 cents totalling \$1.00 per 100 lb. be made. A programme to refund the second 50 cents to producers who reduced marketings by a specified amount had been proposed. A compromise dairy bill recently passed by both House and Senate agriculture committees was yet to be acted on by full Senate and House. This compromise bill proposed a minimum support price for 1 October 1983-30 September 1985 at \$12.60 per 100 lb. However, on 1 January 1985, the Secretary of Agriculture could reduce support price by 50 cents per 100 lb. if projected next twelve months of CCC purchases would exceed 6 billion pounds of milk equivalent. An additional 50 cents per 100 lb. could be made on 1 July 1985, if next twelve months of CCC purchases were projected to exceed 5 billion pounds of milk equivalent. The bill also contained a mandatory 50 cent deduction to

help fund a paid diversion programme. Both the deduction and diversion programmes would expire on 31 December 1984. A producer signing up for diversion programme would contract to reduce his annual marketings by a specified amount from 5 to 30 per cent, from a certain base. The producer would receive \$10 per 100 lb. for reduced marketings. The bill included a mandatory deduction of 15 cents per 100 lb. for dairy product promotion, research, and nutrition education.

8. With regard to skimmed milk powder, the representative of the United States informed the Committee that uncommitted CCC inventories of skimmed milk powder had been at the level of 585,000 tons at 17 June 1983 as compared to 503,000 tons at 18 June 1982. They were projected to be around 611,000 tons at 30 September 1983. The representative of the United States furnished the following information on the domestic distribution programmes of skimmed milk powder (in metric tons).

|                                   | <u>1 October 1981 -</u><br><u>30 September 1982</u> | <u>1 October 1982 -</u><br><u>30 September 1983</u><br>(forecast) |
|-----------------------------------|---|---|
| School lunches                    | 21,727  | 13,925  |
| Prisons                           | 227   | 74  |
| Special distribution<br>for needy | 3,175   | 3,765   |

9. The representative of the EEC expressed the hope that the legislative proposals mentioned by the United States representative would be adopted. He asked the United States representative to furnish to the Committee a detailed information breakdown on exports of dairy products as food aid, as well as on commercial exports. It would also be useful to have fuller information regarding domestic disposal programmes for surplus stocks.

10. The representative of the United States stated that he would convey the remarks made by the EEC representative to his authorities and would endeavour to furnish the information mentioned by that representative in time for the September sessions of the Committees.

11. The representative of Switzerland gave the Committee some information on the general situation in the dairy sector. With effect from 1 July 1983, the base price for milk would be raised by 4 centimes to 91 centimes per kg. There would be subsequent increases for liquid milk, butter and cheese. At the same time, the premiums for non-marketing of milk had been raised. Milk deliveries had increased in the first quarter of 1983. Over the period November 1982 to April 1983, deliveries were estimated to have risen by about 1.4 per cent. Milk production was expected to show an increase of 5 per cent in the second quarter of 1983. For 1983 as a whole, milk output could be about 4 per cent above the preceding year's level.

12. The representative of Sweden said that milk deliveries to dairies in the period January-April 1983 had increased by about 6 per cent over the corresponding period of 1982. However in May 1983 and in the first half of June 1983 deliveries of milk had dropped. Consequently, the trend of increasing production of milk might be levelling off. Regarding consumption of dairy products, slight decreases had been noted in 1983 for fresh milk and cream, there had been certain increases for fermented milk, for cheese, for butter and butter mixtures. Following the increase in milk deliveries, production of skimmed milk powder was also increasing. Exports of skimmed milk powder had amounted approximately to 16,000 tons in the first two quarters of 1983. Average export prices had been in the region of US\$815 per ton f.o.b. in the first quarter of 1983, and around US\$760 per ton f.o.b. in June 1983.

13. The representative of Norway said that milk situation was still serious and milk production was still increasing. In May 1983, production increased by 2 per cent. It was estimated that this trend would continue at least through this year. However, as a consequence of the introduction of the two-price system from 1 January 1983 this situation might change in 1984. It was also expected that production would be stabilized by other measures such as the slaughtering of calves which had been introduced in 1982.

14. The representative of Finland said that spring and early summer had been very favourable for hay and fodder production. It was expected that milk deliveries to dairies might increase by almost 4 per cent in 1983. Following the increase in milk deliveries, production of butter and skimmed milk powder were increasing. In 1982, consumption of skimmed milk powder for animal feed purposes had declined. Therefore, stocks had been at very high levels during the first half of 1983. It was estimated that Finland had to export some 15,000 tons of skimmed milk powder in 1983. With regard to whole milk powder, he informed the Committee that Finland had already exported some 25,000 tons to the USSR. Taking into account the increase in milk production, his country hoped to make an additional sale to the USSR. The average export price for whole milk powder had been at around US\$1,470 per ton f.o.b. in the first quarter of 1983.

15. The representative of South Africa said that following the increase in milk production, skimmed milk powder production was increasing. Stocks of skimmed milk powder had been at 20,071 tons at the end of the first quarter and had been regarded as excessively high. It was expected that stocks would fall to 18,600 tons at the end of the second quarter of 1983.

16. The representative of Poland said that there was a definite improvement in milk output and in the production of all products covered by the Protocols. Export prices of skimmed milk powder had averaged US\$871 per ton f.o.b. in the first quarter of 1983.

17. The representative of New Zealand made a general statement on the market situation. He said that the improvement in milk production in New Zealand (measured as milk fat processed) experienced in the first seven months of the 1982/83 season had levelled off in the first two months of 1983 and for March and April the level of production had been below that of recent years. Drier than normal autumn conditions had led to poor pasture growth and lower production. Nevertheless milk production for the 1982/83 season in total was expected to be approximately 3 per cent higher than in 1981/82. The mix of products manufactured for export in 1982/83 was basically similar as that for 1981/82; but the increase in milk fat processed had been directed to the production of butter and casein where possible. Butter production was expected to be up on last year while skimmed milk powder production was expected to be significantly less than in 1981/82, with a consequential increase in casein production. Whole milk powder and cheese production in 1982/83 were expected to be at about the same levels as those for 1981/82. In the international markets, strong price competition in all products had been recently experienced resulting from pressure from increased surplus stocks in North America and the EEC, depressed current economic conditions, and currency fluctuations. The increase in EEC export subsidies in April and May 1983 had confirmed the price decline. He pointed out that Canada had over the last year been offering skimmed milk powder at prices consistently below other competitive offers. Sweden had recently been offering skimmed milk powder and cheese at low prices and butter had been available from Canada, Poland, Austria and Finland also at lower prices. New Zealand whose dairy industry was the most heavily dependent upon international trade had sought to maximize its returns but had been forced to match competitive offers in order to preserve its business. It was estimated that recent price declines would cost the New Zealand industry between 5 and 7 per cent of its gross earnings. With regard to skimmed milk powder, he pointed out that stocks in the United States and the EEC now totalled well in excess of 1 million tons. Their presence had continued to have a depressing effect on prices. Canadian surpluses had now reduced as a result of aggressive export pricing which in turn had been a major factor in influencing the general decline in skimmed milk powder prices. Export prices in the first quarter of 1983 were in a band of US\$860 to US\$1,000 per metric ton f.o.b. and during the second quarter had fallen to a range of US\$780 to US\$900 per metric ton f.o.b. With regard to whole milk powder he said that the market had been relatively quiet through 1982 compared with the other major products. Price declines had been less pronounced. However, to date in 1983, prices had eased considerably from a price band of between US\$1,200 to US\$1,350 per metric ton f.o.b. in the first quarter of 1983 to around US\$1,150-1,300 per metric ton f.o.b. currently.

18. The representative of the United States said that international prices of skimmed milk powder, which had been in the vicinity of US\$800 to US\$850 per ton f.o.b. in autumn 1982, seem to have been fluctuating between US\$780 and US\$850 per ton f.o.b. in spring 1983.

19. The representative of Japan said that since fiscal year 1979 a programme of restraint on milk production had been carried out by the organization of milk producers. In 1982, the consumption of raw milk had

increased and the supply and demand situation had become tight. The guaranteed price for raw milk had not varied between fiscal years 1977 and 1981. The maximum quantity for deficiency payments had been kept at 1,930,000 tons between fiscal year 1978 and fiscal year 1982. The guaranteed price for raw milk had increased marginally by 0.6 per cent in fiscal year 1982 and 0.8 per cent in fiscal year 1983, so that over a seven-year period it had been raised by only 1.4 per cent. Still in the present fiscal year the situation of over-supply continued. Consequently, Japan had to continue to carry out its production restraint programme. Imports of skimmed milk powder had declined in the period 1979/81, but had recovered in 1982 to some 93,000 tons.

20. The representative of the EEC said that the Council of Ministers had fixed prices for the 1983/84 marketing year. In the dairy sector, the price increase had been very limited and amounted to 2.33 per cent in respect of prices expressed in ECUs. Milk deliveries to dairies, which had increased by 3.85 per cent in 1982 in relation to 1981, could show a further rise by 4.1 per cent in 1983 in relation to the preceding year. Output of skimmed milk powder, which had risen 11.1 per cent in 1982, could show a further increase by about 10 per cent in 1983. The situation in regard to skimmed milk powder stocks was causing keen concern. At 16 June 1983, EEC stocks had totalled 876,675 tons. Aggregate stocks currently held by the EEC, the United States and New Zealand were well in excess of 1 million tons. Taking into account the refund and the current conversion rate between the US dollar and the ECU, the EEC was exporting skimmed milk powder at prices between US\$760 and US\$800 per ton f.o.b. Competition was continuing keen on the market and it was regrettable that certain exporters, in particular Canada, were offering skimmed milk powder at very low export prices. Community exports of skimmed milk powder (including food aid) had declined in 1982 for the second consecutive year. Several traditional purchasers had reduced their orders, while certain importers were no longer taking skimmed milk powder from the Community. Some exporters had succeeded in maintaining their sales, while those of the Community had steadily declined. Commercial exports of skimmed milk powder were expected to total only 185,000 to 200,000 tons in 1983, while deliveries as food aid could fluctuate between 150,000 and 160,000 tons. With respect to whole milk powder, production was forecast to decline by about 6.3 per cent in 1983 in relation to 1982. Exports had declined in 1982 and the trend was continuing. Export prices were currently between US\$1,080 and US\$1,130 per ton f.o.b.

21. The representative of the EEC said that the Community was making a special effort to dispose of the major part of its skimmed milk powder stocks on the internal market. In addition to permanent measures, special measures were being applied to promote disposal of skimmed milk powder in the "pig and poultry" compound feeding stuffs sector. Internal consumption of skimmed milk powder for feeding calves could reach 1,300,000 tons in 1983 and the denaturing premium was at the rate of ECU 64.5 per 100 kg. Sales at greatly reduced prices for feeding pigs and poultry were forecast at around 400,000 tons in 1983. To avoid very high production of skimmed

milk powder, aid was granted on consumption of liquid skimmed milk for feeding calves or pigs. Consumption of liquid skimmed milk was forecast at 1,760,000 tons in 1983 for feeding calves, and at around 2,190,000 tons for feeding pigs. In addition, aid was granted for the processing of liquid skimmed milk into casein. In 1983, the quantity of liquid skimmed milk used in this way could reach 4,110,000 tons. Aggregate consumption of skimmed milk powder and liquid skimmed milk, expressed in terms of skimmed milk powder equivalent, could reach some 2,783,000 tons in 1983. The EEC was making efforts to encourage domestic disposal of skimmed milk powder in order to avoid any disruption of the international market.

22. The representative of Argentina said that milk output had increased in 1982 due to excellent weather conditions, and more particularly, fairly remunerative producer prices. Exports of skimmed milk powder had remained stable at around 3,600 tons in the first quarter of 1983, the principal destinations being Latin American countries. Export prices had been above US\$800 per ton f.o.b. in the first quarter of 1983. With respect to whole milk powder, exports in the first quarter of 1983 had increased to some 3,000 tons, mainly to Latin American countries. Average export prices had barely exceeded US\$1,300 per ton f.o.b. in the first quarter of 1983.

23. The representative of Australia said that milk production in the period July 1982 to the end of March 1983, at 4,640 million litres, had been 4.2 per cent up on the corresponding period in the previous year. Primarily as a result of the recent improvement in seasonal conditions, the Australian Dairy Corporation now estimated that the total milk production in 1982/83 would be around 5,350 million litres, up 2.9 per cent on 1981/82. On the assumption that normal seasonal conditions would prevail in 1983/84, that no major change in the national dairy herd would occur and pastures generally would return to normal conditions and tight supply and high prices for supplementary feed would continue until November and December of 1983, the preliminary estimate for the 1983/84 milk production was at around 5,380 million litres. Output of skimmed milk powder and buttermilk powder was forecast at 95,500 tons in 1983, while exports of those products in 1982/83 were estimated at around 54,000 tons. International market prices had further weakened in the first quarter of 1983. Present quotations in the international market were in the range of US\$800 to US\$860 per ton f.o.b. He pointed out that Canadian and Swedish sourced skimmed milk powder was being priced at extremely competitive levels. Stocks levels in the United States and in the EEC continued to overhang the market. He estimated that for the remainder of 1983 the international market would continue to be highly competitive and that sales would only be achieved by being able to match competitive prices. Whole milk powder production was forecast at 50,000 tons in 1983 and exports of the product in 1982/83 were estimated at around 35,000 tons. The whole milk powder market seemed unsettled. Present quotations in the international market were in the range of US\$1,150 to US\$1,200 per ton f.o.b.

24. The observer for Canada indicated that Canadian dairy production had been increasing quite rapidly towards the end of last year. As a result of that situation, certain measures had been taken with respect to quotas levels and the levy on over-quota production in an attempt to reduce production. It was expected that in the 1982/83 dairy year, industrial milk and cream production would reach approximately 49 million hectolitres, which would be an increase of 0.8 to 1 per cent over the 1981/82 dairy year. For the 1983/84 dairy year, it was expected that fluid milk sales would increase by about 2.6 per cent above their levels for 1982/83, with a small increase in domestic requirements for industrial milk. With regard to skimmed milk powder, production in the first quarter of 1983 had dropped as compared to the first quarter and to the last quarter of 1982. Exports had increased in the first quarter of 1983 as compared to the corresponding period of 1982. Consumption had decreased in the first quarter of 1983 as compared to the first quarter of 1982 to return to levels more comparable with the first quarters of earlier years. He informed the Committee that the level of the rebate for feed grade skimmed milk powder had recently been increased in order to promote consumption of this product for animal feed purposes. Stocks at the end of March 1983 had been down significantly as compared to their level at the end of the first quarter of 1982. With respect to international prices, the levels mentioned by other delegations seemed to correspond to the information available to his authorities. It was estimated that in the 1983/84 dairy year, some 100,000 to 104,000 tons of skimmed milk powder might be available for export. He noted that large stocks continued to overhang the market and that no great optimism was being felt over the current situation.

#### Other business

#### Communication from the Permanent Delegation of the Commission of the European Communities (DPC/P/W/13)

25. The Committee examined a request from the Commission of the European Communities (DPC/P/W/13) for certain amendments to the processes and control measures to be approved and included in the Register of Processes and Control Measures. Presenting his delegation's request, the representative of the EEC informed the Committee that with respect to exports of skimmed milk powder for animal feed, the EEC was no longer exporting denatured powder falling within CCT heading 04.02, but preparations containing skimmed milk powder and falling within CCT heading ex 23.07B. Nevertheless, his delegation wished to maintain in the Register of Processes and Control Measures (Annex I(c) to the Arrangement) the processes and control measures already recorded together with the amendments proposed in document DPC/P/W/13.

26. The Committee approved the amendments to the processes and control measures proposed in the EEC communication (DPC/P/W/13) and agreed to include them in the Register of Processes and Control Measures in Annex I(c) to the Arrangement. Certified copies of the text of these amendments, signed by the Director-General of the CONTRACTING PARTIES to

the General Agreement, will be distributed. The text will likewise be circulated as document L/5514.

Adoption of report to the Council

27. In accordance with Article VII:2(a) of the Arrangement and Rule 22 of the Rules of Procedure, the Committee adopted its report to the Council. That report, on the work at the Committee's fourteenth session, will be circulated as document DPC/P/20.

Special meeting

28. As agreed at the December 1982 sessions, a special meeting will be held on the occasion of the September 1983 sessions of the Committees, to examine government measures to expand domestic consumption of dairy products (DPC/P/W/11, DPC/F/W/10, DPC/C/W/10 and addenda thereto).

Date of next session

29. In accordance with the preliminary calendar, it has been decided that the committees will hold their fifteenth sessions consecutively on 26, 27 and 28 September 1983, 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 Milk Powders and then the session of the Committee of the Protocol Regarding Certain Cheeses.