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International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS

Twenty-Eighth Session

Draft Report

Introduction

1. The Committee of the Protocol Regarding Certain Milk Powders held its twenty-eighth session on 15 December 1986.

Adoption of the agenda

2. The Committee adopted the following agenda:
- A. Adoption of report on the twenty-seventh session
 - B. Information required by the Committee:
 - (i) Replies to Questionnaire 1
 - (ii) Summary tables
 - (iii) 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 the next session

Adoption of report on the twenty-seventh session

3. The Committee adopted the report on its twenty-seventh session, as amended. This was distributed as document DPC/P/44.

Information required by the Committee

(i) 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 third quarter of 1986 to do so without further delay. They were also requested to submit information regarding the fourth quarter of 1986 by 13 March at the latest.

(ii) Summary tables

5. The Committee took note of document DPC/P/W/32/Rev.3, containing information up to the third quarter of 1986. It also took note of information up to June 1986 incorporated in the seventh annual report on the world market for dairy products.

(iii) 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. This information was up-dated during the meeting in the light of comments made by the observer of the OECD.

7. The Committee also took note of document DPC/W/63 which the secretariat had prepared on the United States Export Sales of Dairy Products under Section 1163 of the Food Security Act of 1985. No new information had been received since the distribution of this document.

Sales under derogations

8. The Chairman informed the Committee that no new information had been received since the issue of DPC/P/W/30, dated 4 October 1985, regarding the sales of milk powders in accordance with Article 3:5 of the Protocol Regarding Certain Milk Powders.

Review of the market situation for products covered by the Protocol

9. The spokesman of the EC said that the number of dairy cows had declined by 1.7 million head between 1984 and 1986. A further decrease of some 400,000 head was expected until the end of 1987. Deliveries of milk in 1986 were provisionally estimated to increase by 1.3 per cent over the level in 1985. It was also estimated that milk production would show a small increase by 0.8 per cent in 1986 over the level in 1985. The estimations for the production of the main dairy products in 1986 were the following: skimmed milk powder +7 per cent; butter +6 per cent; cheese +1 per cent; whole milk powder -5 per cent; condensed milk +5 per cent. With regard to the reasons for the unexpected increase in milk deliveries in 1986 he pointed out that the figure for 1985 had been quite low and that the climatic conditions had been quite good in parts of the Community. More important was the fact that producers had been willing to continue to produce even at the expense of the super levy. The quota system had probably been too flexible. He recalled that a compulsory reduction in the overall Community quota of 2 per cent had been decided for the 1987/88 year and another 1 per cent for 1988/89. In addition, the Commission had sent two packages of measures to the Council in September and November of 1986. In the first package, the ending of some possibilities of flexibility associated with the quota system had been foreseen. It had been proposed to effect intervention buying of skimmed milk powder only in the summer months. According to this proposal, the Commission could also, in exceptional circumstances, suspend intervention buying of butter and skimmed milk powder. In November 1986, a series of tough, new measures had been proposed by the Commission to the Council. A further reduction in the overall Community quota of 2 per cent had been proposed for the 1987/88 year and another 1 per cent for 1988/89. This

proposal would double the present planned cut in quotas from 3 to 6 per cent in the coming two dairy years. It would also enforce the present quota system at the level of individual farmers, instead of at the dairy, and increase the super levy they must pay from 75 per cent to 100 per cent of the target price for milk, for any production above their quotas. The Council would soon take decisions on these measures.

10. Referring to the situation for milk powders, he estimated that production of skimmed milk powder could total 2.1 million tons in 1986, an increase of 7 per cent over 1985. In 1987, however, a decline was expected. As of 27 November 1986, skimmed milk powder stocks were of the order of 799,000 tons as compared to 914,000 tons as of 11 September 1986. This decline was mainly due to the success of internal disposal schemes. Exports of skimmed milk powder in the first nine months of 1986 totalling 194,000 tons showed a decline by 20 per cent over the same period of the preceding year. He recalled that the problems caused by the Chernobyl accident and the exploitation of this accident by certain exporters had resulted in a decline in the exports of the Community. With regard to whole milk powder, he estimated that production could total 740,000 tons in 1986, a decrease by 5 per cent over 1985. Exports of whole milk powder in the first nine months of 1986 showed a decline by 2.2 per cent over the corresponding period of the preceding year. In the milk powders sector, the situation was better. Export prices recorded for skimmed milk powder were between US\$750 and US\$780 and even US\$800 per ton f.o.b. and for whole milk powder between US\$900 and US\$950 per ton f.o.b.

11. The representative of Australia addressed a question on the effects of the Chernobyl accident to the EC representative and to the representatives of Eastern European countries. She wondered whether these representatives could provide information on the effects of this accident on consumption, particularly of fresh milk. Her delegation had understood that per capita consumption both in Western and Eastern Europe had declined substantially following the nuclear accident. Her delegation would be interested to know whether the per capita consumption was now increasing as radiation levels had fallen to acceptable health levels and whether consumer confidence was being restored. It would also be interesting to have an assessment on the quantity of fresh milk diverted into manufactured dairy products and on the degree of acceptability by the consumers of these products.

12. The spokesman of the EC said that it was rather difficult to answer mainly because information by various member States was sometimes conflicting and confusing. He stressed that an important part of Community exports had suffered as a result of this accident. Importing countries had often been setting unreasonable standards for accepting EC products even fixing radiation tolerance levels which could not be met even in the absence of this accident. Given these difficulties, a lot of products which would be otherwise exported had been diverted into butter and skimmed milk powder and went into intervention stocks. Consumption of fresh products was rather stagnating although slightly increasing for certain products. The accident happened in April 1986 and it was too early to make an objective evaluation of its consequences in the internal market. The consequences had been felt mainly in the international market.

13. The representative of New Zealand, referring to the difficulties faced by the EC by the imposition of unreasonable standards of control, pointed out that his country too had been finding difficulties in this area. New Zealand private organizations and the Dairy Board had been attempting to work with organizations within the Community to try and get international agreement to acceptable levels. Some of the levels imposed in fact had been zero radiation level which was an absolute nonsense. His delegation hoped that this was a temporary difficulty which could be overcome by co-operation of scientific communities. The best behaviour would be to co-operate so that trade would not be affected.

14. The representative of Poland said that as a result of the Chernobyl accident, exports of skimmed milk powder had sharply fallen. With regard to the consequences of this accident on domestic consumption, he said that after a drastic fall of confidence, the consumers confidence was now restored in Poland.

15. The representative of Finland said that the Chernobyl accident had influenced export possibilities. For example, exports of cheese to the United States had been affected but seemed now to have recovered. At present it seemed that there were no consequences of the accident for Finland. In the domestic market, the declining trend of consumption of fresh milk was continuing but this was not due to the nuclear accident.

16. The representative of Switzerland said that, although consumption of milk products had declined quite sharply after the Chernobyl accident, the situation had now returned to normal. Exports of certain milk specialities to some destinations continued to be affected by that accident however. He supported the view that close co-operation at the scientific level was necessary if the problems involved were to be resolved. It was the general opinion in Switzerland that the accident had not caused any important damage, at least for the moment.

17. The representative of Norway said that the Chernobyl accident had not affected adversely consumption and exports of dairy products because consumers had had confidence over the control system applied by his country.

18. The spokesman of the EC said that it was possibly a little too early to reach a decision on the scientific aspects and on minimum or maximum standards. However, the problem existed, and all participants had suffered to varying degrees from the over-reaction of consumers, which was undoubtedly due to the absence of standards. Difficulties had been greater in the case of exports, because participants had had to cope with quite unreasonable fears. He requested the secretariat to prepare a brief note indicating the impact of the Chernobyl accident on trade and in particular what certain importers might require of exporters.

19. The Committee instructed the secretariat to prepare, for the Committee's next series of meetings, a brief note on the effects of the Chernobyl accident, with particular emphasis on trade aspects.

20. The representative of Japan informed that milk production during the fiscal year 1985 at 7.4 million tons was 3.3 per cent more than in the previous year. In the fiscal year 1986, there was a slowing down in milk production due to strengthened production controls. The production in August and September was lower than in the same months of the preceding year respectively. The production of butter and skimmed milk powder also had been decreasing since June 1986. Stocks of these products, however, were still at a high level and the prices had been decreasing. Imports of dairy products in terms of milk equivalent in 1985 were 6 per cent higher

than in 1984 due to the increase of skimmed milk powder imports. Imports of dairy products in the first nine months of 1986 were 4.1 per cent lower than the corresponding period of 1985. Skimmed milk powder production during the fiscal year 1985 at 186,000 tons was 16 per cent above the level of 1984. There was a slowing down in its production in the fiscal year 1986, with output in September 1986 running 5.4 per cent lower than in the same month of last year. Stocks were, however, still at a high level. Imports of skimmed milk powder in 1985 at 104,000 tons were 15.5 per cent more than in the previous year. The increase was due to the LIPC's imports of 8,000 tons of skimmed milk powder for human consumption purposes to replenish its stocks and higher imports for animal feed purposes. In the first nine months of 1986 imports were, however, 11.5 per cent below the level of the corresponding period of 1985. Average import price in 1985 was reckoned at US\$689 per ton c.i.f. for animal feed purposes and US\$796 per ton c.i.f. for human consumption purposes. In more recent months average prices paid were respectively US\$721-US\$729 and US\$783-US\$958 per ton c.i.f.

21. Commenting on the milk production situation in his country, the representative of New Zealand said that weather and pasture growing conditions had a strong influence on the level of total output. Thus, favourable weather in late summer and autumn in almost all dairying areas led to increased milk production in the 1985/86 season, with milk fat processed at 349.4 thousand tons which was 5.1 per cent more than the level of 332.4 thousand tons in the 1984/85 season. Cow numbers had risen from 2,128 million head in 1984/85 to 2.2 million in 1985/86, an increase by 3.7 per cent or by about 80,000 cows. It was expected that in the 1986/87 season the herd would increase by 2 per cent over 1985/86. During the first months of the 1986/87 season, cold temperatures and heavy rainfall had continued to suppress pasture growth throughout the country and it was therefore estimated that milk fat production for the current season would be 330 thousand tons. With regard to the mix of manufactured production in 1986/87, he estimated that total butter production would fall by over 25,000 tons on the previous year, cheese production would also be down, whole milk powder production would increase marginally and skimmed milk powder production would decline further by some 30,000 tons along with the

decline in casein output. Milk production in 1986/87 should be affected by drastic price cuts announced in June 1986. Total production could decrease by some 5 per cent in the current season. With regard to the general market situation for skimmed milk powder, he recalled that during the early months of the year when the Commission had been granting special unpublished export refunds, prices had been depressed in the range of US\$650 to US\$700 per ton f.o.b. However, since then the market had considerably improved and prices had moved to around US\$800 per ton f.o.b. Given the current healthy situation, this price was sustainable depending to some extent on the restitution levels of the Community. His delegation believed that there was still room for improvement in skimmed milk powder prices. With regard to whole milk powder, he said that the increase in exports in recent years had been largely the result of the growth of exports to the USSR. The achievement of the production targets for the current season would depend on continuing sales to that market. Another factor which ought to be borne in mind was the substantial and non-expected sales to Brazil. Export prices were currently between US\$925 and US\$950 per ton f.o.b. Demand for whole milk powder was strong and as for skimmed milk powder there was still room for improvement in the prices.

22. The representative of Poland recalled that at the September meetings his delegation had reserved the right to revert to the question of the minimum export price for skimmed milk powder (DPC/26, paragraph 26). He informed the participants that the position of his country remained unchanged.

23. The representative of South Africa said that as indicated during the September meetings of the Protocols, total milk production in 1986 was running at about 3 per cent below 1985 levels. It was expected that this lower total output would be continued in 1987. Regarding milk powders, the skimmed powder situation continued to remain healthy with a normal third quarter and stocks even further down to a level of 2,200 tons. The same scenario applied in the domestic whole milk market.

24. The representative of Finland said that milk deliveries to dairies during the first six months of 1986 were reduced by about 1.6 per cent compared to their level in the same period of last year. It was anticipated that total output in 1986 would be 2,800 million litres, which

would be slightly less than in 1985. Output of whole milk powder was expected to be 32,000 tons, about 2,000 tons less than in the previous year. Export availability would fall accordingly. Export prices for whole milk powder during the third quarter averaged US\$1,135 per ton f.o.b. With regard to skimmed milk powder, it was estimated that production in 1986 would increase by 1,000 tons to 43,000 tons. The bulk of the production was consumed in the domestic market. Export prices for skimmed milk powder during the third quarter averaged US\$786 per ton f.o.b.

25. The representative of Norway informed that milk deliveries during the first nine months of 1986 were 1.5 per cent lower than in the same period of last year. For the whole of 1986, milk deliveries were expected to be 1.5 per cent smaller due mainly to the effective implementation of quotas. In 1985, the consumption of low-fat liquid milk had shown a rapid increase. This trend continued in 1986. Consequently, the surplus of milk fat was increasing thus creating a problem for the future. With regard to skimmed milk powder, he recalled that the surplus skimmed milk powder was being used for animal feed purposes and for that reason there were no exports from his country.

26. The representative of Sweden estimated that milk production at 3.4 million tons in 1986 would be 5 per cent smaller than in the previous year. This was the result of a decline in cow numbers. With regard to skimmed milk powder, he estimated that the production would decline to 49,000 tons in 1986 as compared to 57,100 tons in 1985. Further declines in the production of milk and skimmed milk powder were forecast for 1987. Exports of skimmed milk powder were declining and this trend was expected to continue in 1987.

27. The representative of Switzerland said that milk deliveries to dairies in 1985/86 (the milk season beginning on 1 November) had remained at the 1984/85 level. A further reduction of milk quotas was scheduled for the spring of 1987. Production of skimmed milk powder during the first three quarters of 1986 had amounted to 22,500 tons, representing a decline of 2,200 tons in comparison with the corresponding period of 1985. It was anticipated that production during the fourth quarter of 1986 would be slightly below that of the corresponding quarter of 1985. The decline should continue in 1987. Exports of skimmed milk powder during the first

three quarters of 1986 had amounted to 7,500 tons as compared with 2,500 tons during the corresponding period of 1985. It was expected that some 6,000 tons would be exported at the beginning of 1987. The slight decline in consumption that had taken place in 1986 was explained by the fact that, as quotas were reduced, producers fed an increasing amount of whole fresh milk instead of compound feedingstuffs to calves. Stocks at the end of September 1986 had been 6,600 tons lower than at the end of September 1985. It was anticipated that stocks at the end of 1986 would remain unchanged or show a slight decline in comparison with their level at the end of 1985. Liquid skimmed milk was being offered at reduced prices to pig producers on an experimental basis to prevent stocks from being built up again. The situation as regards whole milk powder was relatively stable; production and consumption had increased slightly and imports and stocks had declined somewhat.

28. The representative of Australia indicated that milk production in the July-September 1986 quarter at 1,455 million litres was 1.6 per cent below the corresponding period in the 1985/86 season. The decline was due to a number of factors including poor seasonal conditions and the decline in farm numbers. Total milk production was the same in 1984/85 and 1985/86 at 6,038 million litres. For the 1986/87 season, a marginal reduction in milk production was expected; production could be slightly under 6,000 million litres which was a decrease of about 1.5 per cent over 1985/86. A decline in cow numbers was expected resulting in a reduction of milk production. Reduced milk production in 1986/87 would reflect the first year of operation of the new marketing arrangements. Total skimmed milk powder/buttermilk powder (SMP/BMP) production in the July-September 1986 period of 32,100 tons was 5.9 per cent down on the corresponding period in the 1985/86 season. This decline was due to the decline in butter production as a result of the diversion of milk fat from butter to cheese and whole milk powder production and the reduction in milk flow. Estimated production of SMP/BMP for 1986/87 was 124,500 tons as compared to 132,600 tons in 1985/86. Domestic consumption of SMP/BMP in 1986/87 was expected to decline by 3.5 per cent to around 38,000 tons. Export availability of SMP/BMP was expected to be around 87,000 tons in 1986/87 as compared to exports of 125,200 tons in 1984/85 and 97,000 tons in 1985/86. Whole milk powder production in the July-September 1986 period at 15,900 tons was 26.2 per cent above the corresponding period in 1985.

Production was forecast to increase by 9.4 per cent in 1986/87 to 57,000 tons in response to the continuing trend in international market demand. Exports in 1986/87 were expected to be close to the level of availability of 44,500 tons as compared to exports of 40,700 tons in 1985/86 and 36,200 tons in 1984/85.

29. Referring to the world market situation for milk powders, she said that the international market for skimmed milk powder (SMP) was firming. Quotes for SMP on the international market in the period under review were in the range of US\$750-US\$800 per ton f.o.b. However, some recent price indications even exceeded US\$800 per ton f.o.b. With regard to whole milk powder, export demand continued to increase. Recent quotes had been in the range of US\$950-US\$1,050 per ton f.o.b. although the recent Sri Lanka tender had been awarded to a Community supplier at a level well below this range.

30. The observer from the Economic Commission for Europe said that cow numbers in Eastern Europe during 1986 had dropped by about 4 per cent. At 1 November 1986 the dairy herd on State and collective farms in the USSR had amounted to 29 million head representing a decline of about 1 per cent compared to November 1985. Information so far available on milk production in Eastern Europe indicated that overall production might decline by about 3 per cent in 1986. In the USSR, milk output from State and collective farms during the first ten months of 1986 had been 5 per cent higher than in 1985. This increase had been registered with reduced cow numbers, thus indicating a sizeable increase in milk yields. On the basis of these trends, production might be expected to continue rising also in 1987. Butter production in Eastern Europe would probably decline in 1986. In the USSR from January to October 1986 butter output had increased by 5 per cent. The USSR butter imports in 1985 had increased by 39 per cent reaching the amount of 276,000 tons. Butter exports from the USSR amounting to 17,400 tons went up by 2 per cent in 1985. Cheese production in Eastern Europe and the USSR would probably increase in 1986 by about 1 to 2 per cent. In 1985 the USSR imported 16,300 tons (+4 per cent) and exported 5,400 tons (+15 per cent) of cheese. Production of milk powders in the USSR had increased by about 5 per cent during the first ten months of 1986. In 1985 the USSR imported 69,500 tons of milk powders (+21 per cent).

31. The observer from the OECD provided additional information about the situation in the United States. According to information communicated by delegations, milk production in the United States would show an increase of about 1 per cent in 1986 as compared with 1985. However, that increase reflected two very different trends, namely, an increase up to June and declines of 2.5 per cent and 4 per cent respectively during the third and fourth quarters of 1986. A 3 per cent decline in milk production was anticipated in the first quarter of 1987 in comparison with the corresponding period of 1986. It appeared that milk production in the United States was at present bottoming out at the time when the dairy cow slaughter programme was having its greatest impact. Prospects for 1987 were still uncertain, however, and it was highly likely that in 1988 production would return to previous levels because yields might well increase by 2 per cent. Production of skimmed milk powder probably declined by about 8 per cent in 1986. As in the case of milk production, production of skimmed milk powder had declined sharply during the second half of 1986, namely, by 25 per cent during the third quarter and by 40 per cent during the fourth quarter. A decline of 30 per cent in production was anticipated in the first quarter of 1987. It was expected that stocks of skimmed milk powder at the end of December 1986 would amount to 380,000 tons as against 460,000 tons at the end of December 1985. Production of whole milk powder had declined slightly.

Adoption of report to the Council

32. 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/45.

Date of the next session

33. The next sessions of the Committees will be held on 16-17 March 1987, subject to confirmation by the secretariat. The session of the Committee of the Protocol Regarding Certain Cheeses will be followed by the session of the Committee of the Protocol Regarding Certain Milk Powders and then the Committee of the Protocol Regarding Milk Fat.