

# GENERAL AGREEMENT ON

RESTRICTED

## TARIFFS AND TRADE

Spec(87)18  
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### International Dairy Arrangement

#### COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS

##### Twenty-Ninth Session

##### Draft Report

#### Introduction

1. The Committee of the Protocol Regarding Certain Milk Powders held its twenty-ninth session on 17 March 1987.

#### Adoption of the agenda

2. The Committee adopted the following agenda:
- A. Election of Chairman and Vice-Chairman
  - B. Adoption of report on the twenty-eighth session
  - C. Information required by the Committee:
    - (i) Replies to Questionnaire 1
    - (ii) Summary tables
    - (iii) Other information
  - D. Sales under derogations
  - E. Review of the market situation for products covered by the Protocol
  - F. Oral report to the Council
  - G. Date of the next session

Election of Chairman and Vice-Chairman

3. The Committee elected Mr. P. Huhtaniemi (Finland) as Chairman of the Committee for 1987/88; no Vice-Chairman was elected.

Adoption of report on the twenty-eighth session

4. The Committee adopted the report on its twenty-eighth session. This was distributed as document DPC/P/46.

Information required by the Committee

(i) Replies to Questionnaire 1

5. The Committee reviewed the replies to Questionnaire 1 and requested participants who had not communicated such information in respect of the fourth quarter of 1986 to do so without further delay. They were also requested to submit information regarding the first quarter of 1987 by 15 June 1987 at the latest.

(ii) Summary tables

6. The Committee took note of document DPC/P/W/32/Rev.4, containing information up to the third quarter of 1986. Further revision would be carried out when data for the fourth quarter of 1986 would be received from all the participants.

(iii) Other information

7. 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.

8. The Committee had before it two notes prepared by the secretariat, namely a note on the United States Exports of Dairy Products (DPC/W/68) and a note on the Chernobyl nuclear accident and dairy trade (DPC/W/69).

9. With regard to the secretariat note on the United States Exports of Dairy Products (DPC/W/68), the Committee noted that the suggestions made and the concerns expressed on this issue during the meeting of the Committee of the Protocol Regarding Certain Cheeses (Spec(87)17, paragraphs 13 to 19) applied also to the products covered by the Protocol Regarding Certain Milk Powders.

10. In introducing the note on the Chernobyl nuclear accident and dairy trade (DPC/W/69), the secretariat (Mr. Østeras) apologized for the delay in the distribution of this document. One problem was that the secretariat was not in possession of all the information it needed for preparing it. The secretariat had held it and waited for more substantial information notably about the effects of the accident on trade. In the end, this information had not been furnished and the secretariat decided to distribute the paper without this information. Turning to the contents of the paper, he said that the section relating to the scientific background contained information obtained from various international organizations. The table in the annex contained information in the draft form obtained mainly from the WHO and would consequently be subject to changes. The measures taken should be notified to the GATT and only the EC and the Philippines had notified such measures under the Agreement on Technical Barriers to Trade. With regard to trade effects on the market, the paper noted that the Chernobyl nuclear accident obviously had had considerable economic consequences, but their total value might never be assessed with accuracy. A number of international institutions were actively pursuing work on problems related to nuclear contamination and the secretariat would try to keep itself informed about the progress made, if the Council or the Committees would deem this to be appropriate.

11. The representative of Sweden said that he had to check with his authorities the figures regarding Sweden shown in the table annexed to the document (DPC/W/69). If these figures needed to be corrected, his delegation would provide amended figures to the secretariat.

12. The representative of Poland recalled that an advertising campaign had been launched in certain foreign markets against milk powders of European origins. This campaign argued that European milk powders were dangerous to health because they were contaminated by radiation. This kind of advertising was contrary to the rules of fair play in international trade and ought to be condemned.

13. The representative of the EC thanked the secretariat for the useful and substantial paper on the Chernobyl accident and dairy trade. With regard to trade effects on the market of this accident, it was clear from the paper that what had perhaps been the most important effect of this accident had been the psychological effect on consumers. This accident had adversely affected consumption of products of a sector which was already under heavy strain. It had served as a pretext for a lot of countries to exploit the situation. Certain importing countries had fixed, perhaps under panic due to imperfect or lacking knowledge, unreasonable limits for radioactivity and created considerable difficulties to exporters of dairy products. The Community had been adversely affected and was still being adversely affected by these measures. In particular, for this reason, the recent export performance of the Community was rather bad. He concluded by stating that the main conclusion to be drawn from this exercise could be found in paragraph 12 of the secretariat note (DPC/W/69), namely that the total value of the economic consequences of the accident might never be assessed with accuracy.

14. Referring to the annex to the secretariat's note (DPC/W/69), the representative of Finland said that the figures shown for Finland in the table were rather high. These limits had been fixed before the Chernobyl accident on the basis of the scientific evidence available. He noted that these limits were subject to review as objective needs arose.

15. The representative of New Zealand thanked the secretariat for the note which contained very useful information. There were basically two issues which were addressed by this note. Firstly, the question of technical

standards that were applied and secondly, the trade depressing effects of the application of these standards in terms of import requirements by importing countries. These technical standards could have significant trade distorting effects in particular cases, notably, as referred to by the secretariat in paragraph 10, when some importing countries established certification and inspection procedures which might occasionally have been unduly complex and not always clear and consistent. New Zealand also, like others, had suffered from this situation. On the question of technical standards, the Committee should note that they varied significantly from one country to another. Consequently, it should express the wish that the competent bodies would examine the possibility of achieving greater uniformity in this regard. Secondly, in relation to certification and inspection procedures, governments should be encouraged to notify any measures taken under the procedures of the Agreement on Technical Barriers to Trade.

16. The representative of Australia agreed that the discussion on the technical barriers should take place in a more competent forum for those aspects than this Committee. He noted that the panic caused by the accident had had an effect on all dairy consumption including consumption in Australia. There was a conscious effort on the part of the Australian Government and the Australian traders not to exploit the difficulties that were facing the dairy trade at that time. Consequently, there had been no campaign mounted in the press neither by the Australian Government nor by Australian traders to exploit any differences. He noted that the standards for tolerance limits of radiation levels varied from one importing country to another and that this was causing difficulties to Australian traders, but the standards applied by certain importers for dairy products originating in Australia were not different from those applied to products originating in Europe.

17. The Committee took note, with appreciation, of the paper prepared by the secretariat on the Chernobyl nuclear accident and dairy trade (DPC/W/69) and of the comments made. It noted the existence of a variety

of measures and tolerance limits applied. It expressed the wish that the competent bodies would examine the possibility of achieving greater uniformity in this regard. It was felt that it would be useful if governments notified any measures taken, under the procedures of the Agreement on Technical Barriers to Trade. It was requested that the secretariat should keep itself informed about the progress made with regard to problems related to nuclear contamination.

#### Sales under derogations

18. 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

19. The representative of Australia said that total skimmed milk powder/buttermilk powder (SMP/BMP) production in the October-December 1986 period of 61,400 tons, was about the same as the corresponding period in the 1985/86 season. Estimated production of SMP/BMP for 1986/87 was 124,500 tons as compared to 132,700 tons in 1985/86. Domestic consumption of SMP/BMP in 1986/87 was estimated to increase marginally to around 39,500 tons (39,200 tons in 1985/86). Given objective closing stocks of 8,500 tons, export availability of SMP/BMP was expected to be 85,400 tons in 1986/87 as compared to exports of 97,000 tons in 1985/86. Whole milk powder production in the October-December 1986 period at 23,900 tons was 26.4 per cent above the corresponding period in 1985/86. Production was forecast to increase by 9.4 per cent in 1986/87 to 57,000 tons. Exports in 1986/87 were expected to be close to the level of availability of 47,800 tons. Prices for SMP/BMP during the period October to December 1986 had been in the order of US\$780 to US\$810 per ton f.o.b. Current prices for skimmed milk powder had firmed to US\$850 to US\$900 per ton f.o.b. Current prices for buttermilk powder were estimated at US\$850 per ton f.o.b.

Prices for whole milk powder during the period October to December 1986 had been in the order of US\$900 to US\$950 per ton f.o.b. Present prices had, however, declined to around US\$900 per ton f.o.b. as a consequence, in particular, of the recent increase in the refund granted by the EC which had tended to depress the prices.

20. The representative of Japan said that there had been a slowing down in skimmed milk powder production in fiscal year 1986, with output in December 1986 running 13.2 per cent lower than in the same month of 1985. The stocks were, however, still at a high level. Imports of skimmed milk powder in 1986 at 91,000 tons had been 12.7 per cent less than in the previous year, when the LIPC had imported 8,000 tons of skimmed milk powder for human consumption purposes to replenish its stocks. Average import price in 1986 had been reckoned at US\$716 per ton c.i.f. for animal feed purposes and US\$903 per ton c.i.f. for human consumption purposes.

21. The representative of New Zealand said that the production of skimmed milk powder (SMP) in New Zealand had been heavily reduced this season because of the reduction in total milk production. Production was likely to total only approximately 140,000 tons compared with 180,000 tons in 1985/86 and 210,000 tons in 1984/85. On a calendar year basis, this was reflected in a reduction in production from 197,000 tons in 1985 to 155,000 tons in 1986 as shown in the questionnaire. The volume of consumption of SMP in New Zealand was quite low so that the reduction in production described would be reflected in reduced export volumes. This was already evident in the export figures for calendar year 1986 of 160,000 tons as compared with 173,000 tons in 1985. As regards whole milk powder (WMP), production during the current season could be maintained at close to the level of the previous season, i.e. 165,000 tons, although this would depend on trends in the total milk flow until the end of the season.

22. With regard to the general market situation for skimmed milk powder (SMP), he said that the reduced level of production in New Zealand was reflected in a currently very tight supply position for SMP faced by the

Dairy Board. All the current season's production was fully committed. The position of other suppliers was likewise tight with, in particular, reduced export availability from both Canada and Australia. There had also been a substantial reduction in stocks held by the United States. The measures presently applied in the EC were already resulting in a sharp reduction in output. In summary, the international supply position for SMP was very tight with supplies of fresh production powder for any new market opportunities very difficult if not impossible to obtain at the present time. Export prices in the first two months of the current year had firmed to levels in the range of US\$800 to US\$850 per ton f.o.b. More recently they had firmed to even higher levels with offers and sales in the range of US\$850-US\$900 per ton f.o.b. This had been associated with the decline which had occurred in the value of the United States dollar in recent months which had had a positive influence in export prices expressed in US dollars, especially from the European Community. His delegation believed that a price level of US\$900 per ton f.o.b. for SMP was now a realistic and sustainable level and would expect that this could be achieved in the near future.

23. With regard to the general market situation for whole milk powder (WMP) he said that the situation on WMP markets was similar to that for SMP with availability from New Zealand in particular, but also certain other suppliers very tight. In New Zealand production was decreasing rapidly as the end of the production season approached. All production from the current season was fully committed and no new sales were being sought requiring shipment and delivery before August/September when production from the new season would become available. With supplies from other exporters of WMP also restricted and, fully committed, the market was currently virtually the sole preserve of the dominant exporter of WMP at present, the European Community. As regards prices, until recently there had been a very favourable upward trend in prices which had matched the improvement in SMP prices. By the end of January 1987, prices had firmed to levels about and above US\$1,000 per ton f.o.b. from levels close to the GATT minimum a few months earlier. The New Zealand Dairy Board had

concluded significant sales to major account customers at this level. However, in February 1987, the EC restitution on WMP had been increased substantially which forced down Community export prices below US\$900 per ton. There had even been some reports of sales below the GATT minimum price. Other exporters had been forced to respond to this unfortunate situation with adjustments to their prices but there was hope that their lower prices would persist only temporarily.

24. The representative of the EC said that production of skimmed milk powder had increased by 9 per cent to 2.1 million tons in 1986, one of the reasons being the increase in milk deliveries. In 1987, however, a substantial decline (by some 10 per cent) was expected. The EC also, like New Zealand, considered the supply position for skimmed milk powder becoming tight. As of 12 March 1987, skimmed milk powder stocks decreased to 802,500 tons. The decline was mainly due to the success of internal disposal schemes. With regard to whole milk powder, he said that production had decreased by 4 per cent in 1986 to 750,000 tons. In 1987, however, a slight increase (by some 1.5 per cent) was expected. Export performance in both powders had been in 1986 worse than in 1985 and EC market shares had been low compared with previous years. Export prices recorded for skimmed milk powder were between US\$750 and US\$800 per ton f.o.b. and for whole milk powder between US\$900 and US\$950 per ton f.o.b.

25. The representative of Poland said that production of skimmed milk powder had amounted to 150,000 tons in 1986. Exports had decreased by 14 per cent in 1986 to 26,000 tons. Total domestic consumption had reached 106,000 tons. Year-end stocks, at 18,800 tons, were considered to be low. In the view of his delegation, the market situation for skimmed milk powder was not so bright. Certain sales made by non-participants had been reportedly effected at prices lower than those mentioned by certain delegations and were even lower than the minimum price fixed by the Arrangement and were causing concern to his country.

26. He recalled that at the September 1986 meetings his delegation had reserved the right to revert to the question of the minimum price of skimmed milk powder (DPC/26, paragraph 26). He also recalled that at the

December 1986 meeting, the position of his country had remained unchanged (DPC/P/46, paragraph 22). He informed the participants that the position of Poland continued to remain unchanged.

27. The representative of Romania said that production of milk powder had amounted to some 30,000 tons in 1985 and to 13,800 tons in the first two quarters of 1986. During the last two years, Romania neither imported nor exported milk powder.

28. The representative of South Africa noted that production of skimmed milk powder had declined substantially while domestic consumption had shown an even more substantial increase in 1986.

29. The representative of Finland said that the average price of whole milk powder in the fourth quarter of 1986 had been at US\$1,140 per ton f.o.b.

30. The representative of Norway said that production of skimmed milk powder had increased to 9,900 tons in 1986. As a result, domestic consumption for animal feed purposes had increased by 20 per cent to 4,300 tons.

31. The representative of Sweden said that production of skimmed milk powder had declined to 48,700 metric tons in 1986 as compared to 57,100 metric tons in 1985. Exports had dropped by 37 per cent to a level of 17,900 metric tons while imports had declined by 400 tons to a level of 600 tons. Consumption remained at the same level as in 1985. Average export price in February 1987 had been US\$831 per ton.

32. The representative of Switzerland said that production of skimmed milk powder at 5,600 tons in the fourth quarter of 1986 had been substantially lower than the output in the previous quarter. Imports had been nil and exports negligible in the period under review, while consumption had decreased. It was estimated that production and consumption would continue to decrease in the first quarter of 1987 due to incentives for the utilization of skimmed milk in liquid form for animal feed purposes.

33. The observer of Canada estimated that production of skimmed milk powder in the current dairy year would decline by about 4 per cent in relation to the previous dairy year. During the first three months of the current dairy year, stocks of skimmed milk powder had decreased rapidly, from 22,000 tons to 9,000 tons, a drop by 60 per cent. As a result, it was expected that in the short term the Canadian Dairy Commission would import about 5,000 tons of skimmed milk powder for animal feed purposes to service the white veal industry. Animal feed had been a growing outlet for skimmed milk powder, having absorbed 12,000 tons in 1985/86 compared to 8,000 tons in 1983/84. This market was expected to require 16,500 tons during 1986/87. The production of concentrated milk products was expected to drop to almost half of 1985/86 production. The shrinking world market for this type of product would reduce 1986/87 exports to a third of previous year. Many importing countries had switched to whole milk powder imports which were less expensive and easier to transport and store.

34. The Committee took note of the information provided and of the comments made.

#### Oral report to the Council

35. The Committee agreed that an oral report giving an account of its discussions at the present session would be submitted to the Council.

#### Date of the next session

36. The next sessions of the Committees will be held on 15-16 June 1987, 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.