

GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

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International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS

Thirty-First Session

Draft Report

Introduction

1. The Committee of the Protocol Regarding Certain Milk Powders held its thirty-first session on 21-22 September 1987.

Adoption of the agenda

2. The Committee adopted the following agenda:
- A. Adoption of report on the thirtieth 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. Review of the level of minimum prices under Article 3:3(b)
 - F. Oral report to the Council
 - G. Date of the next session

Adoption of report on the thirtieth session

3. The Committee adopted the report on its thirtieth session as amended. This was distributed as document DPC/P/49.

Information required by the Committee

(a) 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 second quarter of 1987 to do so without further delay. They were also requested to submit information regarding the third quarter of 1987 by the middle of December at the latest.

(b) Summary tables

5. The Committee reviewed the summary tables based on information provided by participants in Tables A and B of Questionnaire 1 in respect of the first quarter. The Committee took note of documents DPC/P/W/33/Rev.1 and DPC/W/73/Add.1.

(c) 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. Data related to the second quarter of 1987 and also gave forecasts for the third quarter of 1987.

7. The Committee was informed that no significant sales had been reported under the United States new Dairy Export Incentive Program adopted in February 1987. The secretariat was nevertheless closely following the programme and would keep the Committee informed of future developments.

The Committee was also informed that the letter sent by the Chairman of the International Dairy Council to the United States Mission in Geneva concerning the possible disposal of dairy surpluses abroad under the new Dairy Export Incentive Program had reportedly been forwarded to Washington for comments.

8. Two members of the Committee expressed their satisfaction at the manner in which the United States Government had generally respected the minimum prices agreed under the International Dairy Arrangement. This was significant particularly at a time when the CCC milk powder stocks had been sharply reduced to a low level of 27,000 tons and fresh supplies had become tighter.

Sales under derogations

9. The Committee noted that no new information had been received by the secretariat since the issue of DPC/P/W/30, dated 4 October 1985.

Review of the market situation for products covered by the Protocol

10. The spokesman for the EC said that production of milk powders in the first quarter of 1987 was 30 per cent smaller than in the corresponding period of the previous year. There was a further decline of 16 per cent in the second quarter. On the export side, the Community was doing pretty well in regaining its world market share. Its exports of skimmed milk powder had substantially increased partly due to an increase in food-aid operations. Consumption of skimmed milk powder in the second quarter increased by 20 per cent. Consumption for animal feed purposes, however, declined in spite of the numerous domestic promotional schemes. A substantial decline of 22 per cent in output was anticipated for 1987 compared to 1986, chiefly due to the implementation of the quota system which was expected to restrict production. On 10 September 1987, stocks of skimmed milk powder amounted to 750,000 tons, of which non-committed stocks were 700,000 tons. There was a general shortage of this product which, however, could not be regarded as a seasonal one. This was confirmed from

the level of average prices which ranged between US\$900 and US\$1,000 per ton f.o.b. As regards whole milk powder, the situation was somewhat different. Output in the second quarter was up by 22 per cent and the increase for the year as a whole was anticipated to be more than 70 per cent; partly due to a reverse correlation with the production of condensed milk which declined. Exports increased in the second quarter of 1987, but domestic consumption showed some stagnation. Prices of whole milk powder during the second quarter averaged between US\$1,000 and US\$1,060 per ton f.o.b.

11. Commenting on the general dairy situation in 1987, the EC representative said that it was generally comfortable, due to the enormous sacrifices made by EC producers to adjust to the world demand conditions. Since the introduction of the quota system in 1984-85, the dairy cow numbers had declined from 23.8 million in 1985 to an anticipated 21.5 million in 1988. Deliveries of milk in 1987 were expected to total 95.3 million tons as against 99.6 million tons in 1985. The decline in milk deliveries over the 1986 level alone amounted to 5.6 per cent. As to the product mix, production of butter and skimmed milk powder was expected to fall respectively by 15 per cent and 22 per cent over the corresponding levels of 1986. Cheese output, on the other hand, was expected to increase by 1 per cent, while that of whole milk powder was likely to increase by more than 7 per cent in 1987. As a result of the replacement of the intervention purchases by a tender system in June 1987, the intake of butter in public stocks had considerably declined. The table below shows the absolute quantities of butter in public storage as a result of the intervention purchases in relation to the total stocks of butter in different years:

	<u>Public intervention</u>	<u>Total stocks</u>
1983	600,000 tons	690,000 tons
1984	500,000 tons	841,000 tons
1985	490,000 tons	996,000 tons
1986	650,000 tons	1,320,000 tons
end July 1987	235,000 tons	1,000,000 tons

Intervention purchases after July 1987 amounted to only 5,000 tons largely due to the adoption of the new tender system. With regard to the intervention purchases of skimmed milk powder, the picture was even more revealing. The intervention purchases amounted to 880,000 tons in 1983, 250,000 tons in 1985, 600,000 tons in 1986 and 53,000 tons before the middle of 1987. On 30 June 1987, however, such purchases totalled 1,000 tons only.

12. The representative of Japan indicated that the output of skimmed milk powder in fiscal year 1986 totalled 171,000 tons, which was 8 per cent below the level in 1985. Production tended to fall in 1987 and in the second quarter was 16 per cent lower than its level in the corresponding quarter of 1986. Imports in 1986 at 91,000 tons were about 13 per cent smaller than in 1985, when the LIPC had imported, to replenish its stocks, an additional quantity of 8,000 tons for human consumption purposes. Import prices in the last few months were on an average 3 per cent higher than their level last year. In reply to a comment by the spokesman of the EC that the situation was peculiar in that while the production of skimmed milk powder declined there was also a decline in imports and consumption of the same product, he reserved his comments for a later stage. As to the question of why there were no imports of whole milk powder, he could not provide an immediate explanation. Replying to another question by New Zealand as to whether the indicated 3 per cent rise in average import prices was in yen or dollar terms, he confirmed that it was in dollar terms.

13. The representative of New Zealand said that dairy production in his country suffered a decline in the 1986/87 season due to adverse weather conditions. Later some recovery was experienced during the flush of the season in October and November, followed by unusually dry conditions in all major dairy regions. Milk production fell to levels 20 per cent below 1985/86 from mid-December. Overall production was down by 14 per cent. Another factor contributing to the decline was a cut in farm gate prices from \$4/kg. to \$2.25/kg., later increasing to \$3.20/kg., which was still 20 per cent down on the previous year's level in nominal terms. Some recovery in production was expected in the 1987/88 season on the assumption

that climatic conditions would be normal. It was still too early to make a firm forecast of the production level, but the New Zealand Dairy Board had adopted a figure of 325,000 tons of milk fat. Production was likely to be in the range of 310,000 tons and 335,000 tons. The value for manufacturing milk was set at \$3.10, i.e. down \$0.10/kg. from 1986/87, but was subject to review again. As to the product mix, he indicated that while the whole milk powder maintained its level of 1985/86 at around 174,000 tons, all other products experienced considerable reductions. Butter output was down by 50,000 tons or by 17.1 per cent to 243,000 tons; cheese was down by 14,000 tons or 11.1 per cent to a level of 113,200 tons; skimmed milk powder was down by 36,500 tons or by 19.6 per cent to a level of 150,200 tons; and casein was down by 13,600 tons or by 18 per cent to a level of 61,800 tons. The forecast for 1987/88 indicated no increase in the output of whole milk powder at around 170,000 tons; a recovery in cheese output to around 128,000 tons and some increase in the production of casein and skimmed milk powder. The stock situation had shown some improvement with the sale of 50,000 tons of butter oil to Brazil (60,000 tons of butter equivalent) in October 1986. This, together with a reduction in the 1986/87 season production, meant that a balanced stock position for butter was achieved at the end of the 1986/87 season. However, the supply situation was very tight for all other products. The stocks of skimmed milk powder were particularly below the normal working levels. Some recovery was anticipated in the 1987/88 season, but export volumes were not expected to increase. Average export price for skimmed milk powder was US\$950-US\$1,000 per ton f.o.b. As regards whole milk powder, production was stable at around 170,000 tons and no increase was planned. The New Zealand Dairy Board benchmark export price since June had been US\$1,050-US\$1,100 per ton f.o.b.

14. Replying to a question by the EC representative as to whether New Zealand envisaged any policy measures to bring about equilibrium between the world demand conditions and their constantly increasing production resulting from increasing cow numbers and higher productivity, he reiterated that supply and demand forces governed the market conditions in his country. The Government had nothing to do with prices or supplies on

the market. It was also wrong to say that the cow numbers had increased. The figures, in fact, suggested a decline in cow numbers from 2.321 million in 1986 to 2.312 million in 1987. If returns to farmers were not good, they would automatically stop production and go into some other business, but they would continue to produce as long as it was profitable for them to do so. In any case, it was true that whatever would be produced would be exported.

15. The Polish delegate told the Committee that production of skimmed milk powder at 41,576 tons in the second quarter of 1987 was slightly more than its level in the same period last year, but more or less the same as in the first quarter of 1987. Consumption during this period at 29,600 tons was 12 per cent more compared to its level in the previous year. Whatever was not consumed domestically was exported. Production of whole milk powder in the second quarter of 1987 remained unchanged at last year's level of 13,115 tons. Almost 12,500 tons was consumed domestically. In response to the EC question of whether he agreed with the secretariat observation on page 20, paragraph 54 of the Status Report (DPC/W/73), that the current decline in Polish milk production was likely to be reversed as a result of the increase in Government support prices, he undertook to provide an answer at a later stage.

16. The representative of South Africa said that milk production in his country had remained low and this was reflected in the production of skimmed milk powder which currently was 40 per cent below its level in 1986. This had necessitated imports of all dairy products. Imports of the skimmed milk powder in the third quarter of 1987 were expected to amount to 4,000 tons.

17. The Finnish delegate observed that due to a severe winter frost and excessive rains in the summer, farmers suffered heavy losses as a result of a damage to crops. Estimates for milk deliveries during 1987 showed a decline to 2,720 thousand tons from 2,800 thousand tons last year. Though the level of production of skimmed milk powder remained unchanged, that of whole milk powder declined in the first six months of 1987. Production

estimates for 1987 for skimmed milk powder were 39-43 thousand tons, depending on the market situation at the end of the year. Estimates for whole milk powder indicated a level of 28 thousand tons, but the figure could be revised upwards if more export orders were to be received. Though the overall stock and market situation was improving, the farmers' situation was not very promising.

18. The representative of Norway said that dairy production in her country was subject to a quota system. In 1987, due to an increase in quotas, the production of milk increased resulting into an increase in the output of all dairy products. It was therefore likely that steps would be taken next year to tighten the quotas and to curb the production of all dairy products. As regards skimmed milk powder, production had recently been increasing. Exports had so far amounted to 40 tons only but by the end of 1987 were expected to total 500-1,000 tons. The output of whole milk powder was small since it was not exported.

19. The delegate of Sweden told the Committee that the production of skimmed milk powder in the second quarter of 1987 amounted to 16,600 tons, showing a slight increase over the level in the corresponding period of last year. Domestic consumption, however, registered a substantial increase from a level of 6,400 tons to 11,300 tons in the second quarter of 1987, due largely to increased purchases by the industry. Exports showed an increase from 3,500 tons to 7,700 tons in the second quarter, although the total for the year was expected to remain unchanged at the level of 1986. Imports in the second quarter at 700 tons were also substantially higher than their level in the corresponding period of last year. In reply to the EC question, he said that average export price for extra grade skimmed milk powder was US\$850 per ton f.o.b.

20. Outlining the general dairy situation, the delegate of Switzerland said that milk deliveries in the second quarter of 1987 were 1 per cent lower than in the corresponding period of last year. In the first two quarters of 1987, the reduction amounted to 2.65 per cent as compared to the first half of the previous year. As regards skimmed milk powder,

production increased in the second quarter so that the aggregate level at 15,100 tons in the first half of 1987 was 2.7 per cent more than its level in the first half of 1986. In the third quarter, however, production had dropped somewhat. Exports in the second quarter amounted to 1,700 tons, while there were no imports. Consumption was stable and stocks by the end of June 1987 totalled 5,672 tons. The average export price up to 25 June was US\$680 per ton, f.o.b.

21. The representative of Uruguay indicated that his country's production of skimmed milk powder dropped in the second quarter of 1987 to 411 tons from 1,689 tons in the first quarter. Stocks at the beginning of the second quarter were 1,379 tons. Domestic consumption increased to 559 tons and exports amounted to 705 tons in the second quarter. Regarding whole milk powder, production in the second quarter amounted to 1,436 tons as compared to 813 tons in the first quarter. Exports totalled 868 tons and domestic consumption aggregated 519 tons. Stocks at the end of the second quarter were 795 tons.

22. The Australian delegate informed the Committee that milk production in April-June 1987, amounted to 998 million litres, which represented a 14 per cent increase over the level of 876 million litres in the same period of 1986/87. Total production for the full 1986/87 year was 6,172 million litres, which was 2.2 per cent higher than in 1985/86. This increase was due to improved seasonal conditions in the major producing regions. Milk production in 1987/88 was forecast to be 6,100 million litres, which would be slightly below the level of 6,172 million litres in 1986/87. As regards milk powders the skimmed milk/buttermilk powder production in 1986/87 (July/June) amounted to 136.8 thousand tons, which was up marginally on the 1985/86 production of 132.7 thousand tons. The production of skimmed milk powder in 1986/87 at 128.4 thousand tons was 2.9 per cent up on the level of 124.8 thousand tons in 1985/86, while that of buttermilk powder at 8.4 thousand tons was 6.3 per cent higher than in 1985/86. Both skimmed milk and buttermilk powder production levels were expected to fall in 1987/88 compared to the previous year's level of around 120 thousand tons; skimmed milk powder from 128.4 thousand tons to 112 thousand tons, and buttermilk powder from 8.4 thousand tons to 8 thousand tons. The imminent

decline in skimmed milk production was attributed to the drop in butter production due to the movement of product mix from skimmed milk powder and butter to cheese and whole milk powder production. Exports of skimmed milk/buttermilk powder in 1986/87 were about 88.8 thousand tons (skimmed milk powder 83.5 thousand tons and buttermilk powder 5.3 thousand tons), and in 1987/88 were forecast to decline to 78.3 thousand tons (skimmed milk powder 72 thousand tons and buttermilk powder 6.3 thousand tons). Closing stocks for 1987/88 were forecast at 8 thousand tons. Domestic sales of skimmed milk/buttermilk powder increased from 39.2 thousand tons in 1985/86 to about 45.5 thousand tons in 1986/87 or by 16 per cent. In terms of the world situation, he observed that the international market for skimmed milk powder was firm. Against the background that the GATT minimum price for this product was raised from US\$680 to US\$765 in June, the current prices were in the range of US\$900-US\$950 per ton f.o.b. The Australian skimmed milk production for the remainder of the 1987/88 season was expected to remain tight with strong demand conditions prevailing.

23. As regards whole milk powder, he indicated that 1986/87 production at 65.3 thousand tons compared favourably with 1985/86 production of 52.1 thousand tons and the change reflected strengthening export demand. It was forecast to increase to 75 thousand tons in 1987/88. Exports in 1987/88 were forecast at 61 thousand tons as against 51.2 thousand tons a year before. Domestic sales of whole milk powder were expected to remain at around 13 thousand tons in 1987/88. Referring to the world situation, he said that recent quotes for whole milk powder on the international market were in the range of US\$950-US\$1,050 per ton f.o.b., indicating that the market had strengthened since the GATT minimum rose on 25 June to US\$900 per ton f.o.b. Recent reductions in whole milk powder refunds by the EC had had the effect of causing EC prices to rise to around US\$1,000 per ton f.o.b. Reduced export availability in Australia and New Zealand, together with falling EC stocks, were a positive influence on the supply side and on prices in 1987/88.

24. The Bulgarian delegate said that his country was not an exporter of milk powders but had to import from time to time to meet domestic requirements. In general, production was stable as in the past. Imports

of whole milk powder amounted to 3 tons and those of buttermilk powder were 3.5 tons in the second quarter of 1987. Due to bad weather conditions, imports were likely to increase in the third quarter.

25. The representative of Hungary stated that production of skimmed milk powder had tended to decline from 35,000 tons annually in the 1980's to below 20,000 tons annually more recently. Consumption had also declined, the bulk of which in any case was for animal feed purposes. Small quantities were being exported in the past when there was a surplus over the domestic requirements, but his country was now importing around 1,500 tons annually due to a fall in domestic production. As regards whole milk powder, both production and consumption were stable at around a level of 4,000 tons annually and there were no exports or imports of this product.

26. The observer of Canada informed that the estimated sales of industrial milk and cream in 1986/87 (end July) would increase by 0.5 per cent. Sales of fluid milk were expected to remain strong in the current year and strong international demand was likely to lead to a 1 per cent increase in shipments for the year as a whole. Within the fluid milk sector, sales of low fat milk as well as buttermilk and chocolate beverages and fluid creams had increased between 3.5 per cent and 6.5 per cent. Commercial sales of regular milk, however, had fallen by 4 per cent. Sales of low fat milk now constituted 71 per cent of the fluid milk market. The shift to low fat milk was the result of increasing consumer awareness of the nutritional value of such milk and also a significant price differential and price discounting on sales of this product. In the 1987/88 dairy year, no major changes were expected in production. Milk shipments were expected to increase only marginally and demand for low fat milk was likely to continue to grow. Sales of fluid cream were also likely to continue to increase as a result of extensive use of this product in cooking. Foreign sales of fluid milk were likely to increase by 2 per cent and sales of industrial milk were expected to fall below the 1986/87 level. As regards the skimmed milk powder, stocks at the end of June were about 20,000 tons, representing an increase over the March levels, but significantly below the level of

June of last year. Exports of skimmed milk powder were expected to fall in 1987/88 due to a drop in production and an increase in the demand for this product by the domestic veal industry which would require up to 20,000 kgs. of skimmed milk powder in the near future.

27. The Committee took note of the comments made and of the relevant parts of the Status Report (DPC/W/73).

Review of the level of minimum prices under Article 3:3(b)

28. In accordance with the provisions of Article 3, paragraph 3 of the Protocol, the Committee reviewed the level of the minimum prices for products covered by the Protocol.

29. In proposing an increase in the minimum price of skimmed milk powder, the EC representative observed that there had lately been a steady improvement in the market situation and prices of skimmed milk powder. Production and stock levels had declined and supplies had become tight. Current market prices were in the range of US\$900 and US\$1,000 per ton f.o.b. In certain cases, prices were even higher than US\$1,000 per ton. This situation justified an increase in minimum prices. He therefore proposed that the minimum price of skimmed milk powder be increased from US\$765 to around US\$830-US\$850.

30. Regarding whole milk powder, he observed that prices had also firmed up and now were in the range of US\$1,020 to US\$1,060 per ton f.o.b. However, the fats - solids non-fat ratio was moving in favour of the non-fat component. He therefore proposed to increase the minimum price from US\$900 to US\$950, an increase of US\$50 per ton.

31. The Committee decided that the level of the minimum export price specified in Article 3:3 for skimmed milk powder and buttermilk powder be modified to US\$825 and for whole milk powder to US\$950 per metric ton. In light of this decision, the schedule of price differentials according to milk fat content set forth in Annex Ib of the Protocol Regarding Certain Milk Powders was consequently modified. It was agreed that the decision would take effect at noon on 23 September 1987.

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

33. Referring to this decision of the Committee of the Protocol Regarding Certain Milk Powders to raise the minimum export price for skimmed milk powder, the representative of Poland reserved the right of his delegation to revert to the question of observance of the minimum export price for skimmed milk powder at the next meeting of the Committee and if found necessary and appropriate, then to review its level in light of further developments in the market situation.

Oral report to the Council

34. 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

35. The next regular sessions of the Committees of the Protocols will be held on 14 and 15 December 1987. 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.

36. The Committee took note of a preliminary programme of future meetings up to the end of 1988.