STATEMENT MADE BY THE REPRESENTATIVE OF THE FOOD AND AGRICULTURE ORGANIZATION ON 15 MAY 1968

Thank you for giving me the opportunity of speaking on our report on the utilization of dairy products as food aid. During the session of the Working Party at the end of January, I mentioned that we had just started our work; we are at present in the middle of it and expect to complete it by the end of June.

The collection of material from various countries regarding the utilization of dairy products as food aid has taken a considerable time. As I mentioned last time, we sent questionnaires to various exporting and importing countries requesting not only statistical data on the extent of food aid in the last ten years, but also their views of future possibilities. We have received considerable material, particularly from exporting countries, which throws light on the different types of dairy products distributed as food aid; these include not only skim milk powder but also cheese, butter, butter oil, etc. Thus, we are able to judge the interest in particular dairy products in developing countries. To supplement the statistical data on developing countries, frequently scarce, we turned to our FAO field officers, to collect the material and submit personal observations. We have received most valuable material from the World Food Program and Mr. Sinclair will be telling you about this later.

We sought information from UNICEF and from voluntary organizations like CARE and Catholic Relief Service, etc. However, this information was not sufficient to enable us to make a judgment of the possibilities of food aid and actual experience. Staff members and consultants of FAO visited several countries in the Far East, particularly milk schemes and talked with the responsible people in the World Food Program, UNICEF, CARE and church organizations about their experiences. They talked with managers of milk schemes on how various dairy products could be used in the best way, and on the difficulties and shortcomings encountered. A few days ago, I returned from East Africa where I had talks with different agencies in order to obtain information on the needs and possibilities for food aid which might exist there.

I should just like to outline the general framework of our report although I would be hesitant to speak about its final conclusions at this stage. In particular, I would not like to enter into any kind of quantitative assessments as this still requires a careful examination of different dairy commodities, different milk schemes, projects of WFP and UNICEF, and so on. Our report will examine the outlook for future increase of milk consumption in the many developing countries where milk is not consumed at present, where people are too poor to buy it, but where the provision of aid will enable them to become accustomed to milk products and thus create future commercial demand.
Our report will examine the past experiences of food aid and the past flow of commercial and concessional trade in dairy products. We are making a commodity analysis of different dairy products on markets in various developing countries. We are examining the present institutional framework for food aid in different procurement and distribution agencies. In this way, we will show the present flow of the distribution in developing countries and will examine the channels of distribution to the consumer and the shortcomings or difficulties of distribution which often is not adequate to bring milk products to children or other vulnerable groups. The international organizations, e.g. UNICEF or WFP and the voluntary organizations have a difficult task to bring dairy products to the persons for whom they were intended. Criticisms have been raised that much of the dairy products were sold on the black market in developing countries. We have seen however in some cases that past shortcomings have been overcome particularly during the periods of shortage in supply. For instance, in India, skim milk powder which was distributed to the population so that they could mix the milk for themselves, sometimes has not reached the consumers. It has been noticeable recently in several milk schemes that UNICEF or CARE have not been supplying the milk powder straight to the consumers, but to the milk plants which produce "toned" milk for distribution in bottles to the children. Such experience, which has resulted in an improvement on past methods, may provide future guidance if a Food Aid Convention is reached for dairy products.

The main part of our report deals with the economic impact of concessional supplies in developing countries and examines the way in which food aid can be introduced in the process of economic development. It is possible to measure in nutritional terms benefits to children or other people who have received more proteins through the addition of dairy products; assistance of developed countries can also be measured in financial terms; but a very serious problem arises in many developing countries receiving food aid when supplies of skim milk powder have been interrupted. Shipments of skim milk powder from the United States were around 250-260 thousand tons in 1962-63; supplies dropped to 100 thousand tons this year and the consequences are noticeable. If you visit health centres in developing countries where powder was distributed, you will notice that people no longer visit these centres for medical care because milk powder is no longer distributed. Skim milk powder was one of the inducements that attracted people to the health centres. Thus, the aid programmes did more than merely provide milk. In Ethiopia, where milk powder was distributed to children travelling long distances to school, sometimes 10-20 kilometres, there has been a falling off in school attendance when the glass of milk at lunchtime could no longer be provided.

In India a number of milk plants have been established with the assistance of UNICEF, Colombo Plan or United States AID; the cost has been approximately 20-25 million dollars and many of these plants have been based on deliveries of skim milk powder for "toning". The local buffalo milk has a very high fat content of 7-9 per cent and by reducing the butterfat content to 3 or 1½ per cent and adding skim milk powder for a higher protein content, "toned" milk has been made available at half the price of whole buffalo milk; "double toned" milk has
been sold at even a quarter of the price of whole buffalo milk. Skim milk powder was bought on commercial markets by India but owing to shortage of foreign exchange and the extremely high price of skim milk powder in recent years, India has been forced to reduce imports with the result that some of the plants are working at one half or one quarter of their capacity. Thus investments of international organizations or of developed countries in milk schemes in India have become unremunerative. Consumers must now do without "toned" milk and are unable to purchase the more expensive whole milk. Thus the lower income groups are eliminated from the markets. When these plants were established it was expected that India would buy powder on the commercial market, which today is not the case. Assistance from the World Food Program has provided many of the milk plants in India with some quantities of skim milk powder for certain periods; at the same time the development of local milk production was assisted by distribution of feeding stuffs in the areas surrounding the milk plant. However, supplies of skim milk powder available to milk plants for "toning" are insufficient; according to our estimate, these plants need now about 20,000 tons of skim milk powder yearly and the Government cannot buy more than 4,000 tons while WFP supplied 8,500 tons for three years.

These are some of the problems confronting developing countries and it should be said that once milk consumption has been introduced into areas where it did not previously exist, it can have a favourable effect on future commercial trade. As was pointed out yesterday, there are countries which formerly received food aid and where a commercial demand has now developed. I would like to mention not only the case of Japan, but also Yugoslavia, Israel, Greece and some Latin American countries. Earlier these countries received supplies of skim milk powder from the United States and have since become buyers of skim milk powder on the international market.

I would not like to give you the impression that our study is concerned solely or mainly with skim milk powder; this is not the case. We are trying to examine possibilities for other dairy products and in particular the use of butterfat. Considerable progress has already been made in this direction in the Far East where, upon the initiative of Australia and New Zealand, milk plants recombining butter oil and skim milk powder have been introduced. In this way whole milk is produced from imports of dairy products and at the same time domestic industries are established in developing countries, employing local workers and becoming future buyers of milk products. In Zambia, livestock development is limited but the country has revenues from copper and is establishing plants for recombined milk with the assistance of skim milk powder from WFP. Years ago it was considered that butterfat could not be used in developing countries at all - but now we know that butter oil and skim milk powder can produce recombined whole milk. It was also thought people in developing countries, particularly in Africa and Asia, were not interested in cheese but now we know this is not correct.
I have mentioned a few cases to illustrate the possibilities of food aid in the form of dairy products in developing countries. We are trying to assess how dairy products can serve not only as a food aid for the nutritional gap, but primarily as an impetus for the development of dairy industries in developing countries and for commercial trade.

Food aid in the form of dairy products represents a capital input for future commercial demand in developing countries and a partial policy alternative to adjust supply and demand in advanced dairy countries. Thus, food aid will have an influence on the surplus situation, being integrated into long-term prospects of the commercial market by assistance on a continuous basis for several years. This type of food aid permits developing countries to make arrangements for milk schemes and local distribution of milk products in advance, thus creating a new demand for milk. Within these limits, our assessment of food aid considers that the financial contribution of developed countries will not be confronted with a heavy burden with regard to the present surplus situation and future commercial prospects.

We will also examine the institutional aspects of the use of dairy products and consider whether the existing organizations are adequate for the purpose. Doing this, we will be guided by the discussions in this Working Group.

The report will be completed, we hope, at the end of June. We will be glad to make it available to this Group. Our report will be merely an exploration of these problems and possibilities, but progress towards increased aid and market stability will depend on governments and on the discussions here in GATT. We in FAO are thus greatly interested in the work of this Group.