Committee of the Protocol Regarding Certain Milk Powders

Third Session

Draft Report

Introduction

1. The Committee of the Protocol Regarding Certain Milk Powders held its third session on 24 and 26 September 1980.

Adoption of the agenda

2. The Committee adopted the following agenda:

1. Adoption of the agenda
2. Adoption of report on the second session
3. Information required by the Committee:
   (a) Replies to Questionnaire 1
   (b) Summary tables
   (c) Other information
4. Review of the market situation for products covered by the protocol
5. Review of the level of minimum prices for products covered by the protocol
6. Other business.

Adoption of report on the second session

3. The Committee adopted the report on its second session. The report will be circulated as document DPC/P/3.

Information required by the Committee

(a) Replies to Questionnaire 1

4. The Committee reviewed the replies to Questionnaire 1 and requested members which had not yet communicated information for the second quarter of 1980 to do so without delay. In addition, it was pointed out that the replies to Questionnaire 1 relating to the third quarter of 1980 should reach the secretariat not later than 15 December 1980.
5. The representative of the EEC reminded the Committee that his delegation was not in a position to communicate quarterly data on the destination of exports and origin of imports. Nevertheless, it had just furnished to the secretariat a document reporting Community exports and imports of dairy products by destination and origin for the year 1979. He hoped the other participants would likewise furnish similar detailed data.

6. The representative of the United States said that his country's trade statistics broken down by destination and origin became available only one year after the period considered. His delegation was furnishing quarterly global data on trade, production, consumption and stocks of the dairy products covered by the protocols.

7. It was noted that some participants were furnishing detailed data quarterly on trade in the products covered by the protocols. In that context, the representative of New Zealand expressed the hope that all participants would endeavour to raise the standards of information submitted to the Committee.

(b) Summary tables

8. The Committee was informed that in accordance with Rule 28 of the rules of procedure, the secretariat had prepared summary tables incorporating the data provided in Table A of Questionnaire 1 in respect of skimmed milk powder and whole milk powder. The Committee had before it a document containing revised summary tables (DPC/P/W/1/Rev.2). The Committee took note of that document.

(c) Other information

9. The secretariat made some remarks concerning the need to improve information regarding food aid in respect of products covered by the protocol.

10. The representative of the EEC said that food aid in the form of dairy products was the subject of regulations that were published in the Official Journal. The aid programmes indicated the quantity of aid for a given year and the beneficiary countries and agencies. In addition, his delegation was reporting quarterly to the Committee the aggregate quantities exported as food aid. As in the case of commercial exports, the breakdown by destination was available only annually, not quarterly.
11. The representative of the United States informed the Committee that substantially all current exports of skimmed milk powder corresponded to commercial transactions at world prices. Nevertheless, negligible quantities were being shipped as food aid under Public Law 480.

12. The representative of New Zealand noted that there were certain relations between commercial transactions and non-commercial transactions. Accordingly, participants should communicate promptly to the Committee information on all their transactions, whether commercial or not. In the view of his delegation, participants which had not furnished information had probably made no shipments as food aid, or had despatched negligible quantities.

13. The Committee took note of the remarks made regarding improvement of the information on food aid in respect of products covered by the protocol.

Review of the market situation for products covered by the protocol

14. The representative of New Zealand made a general statement on the market situation. After a record 1979/80 season, milk fat production had started well in the new season. However wet and cold weather in late July halted grass growth and there was a heavy dependence on the good supply of autumn saved pasture to maintain stock condition over this period. Warm and wet conditions had been experienced in mid-August and the first signs of spring pasture growth were evident. Milk fat processed in June and July had been significantly above year earlier levels. However only average production levels were expected during August. Given the predominance of climatic factors on New Zealand dairy production it was too early to forecast with any certainty total dairy production for 1980/81 season. At this stage expectations were for average production of about 270,000 metric tons of milk fat for the 1980/81 season as compared with 291,000 metric tons achieved in the record 1979/80 season. There had been a substantial consolidation of
the international dairy market over the last twelve months with the prices for most dairy products moving to relatively high levels. While milk production continues to rise globally as reflected in the level of milk production in the United States and the EEC in the first half of 1980, steady demand for dairy products (particularly from Eastern Europe) together with greatly reduced level of EEC export subsidies had helped to strengthen the international dairy market. The absence of significant exportable surplus from Australia had also had a strengthening influence on the market.

15. With regard to the skimmed milk powder and whole milk powder situation, the representative of New Zealand pointed out that since mid 1979, the international market price for skimmed milk powder had moved steadily upwards and was now in the US$1,000 to 1,200 per metric ton range. The substantial uplift resulted from the virtual elimination of EEC intervention stocks which declined very considerably in one year. With stocks down, the European Commission in June also substantially had reduced export subsidies. The continued strength of the skimmed milk powder market will reflect the continuation of these policies. So far this year there had been no discernible trend in the production of the EEC but the United States' production in the first half of 1980 had risen substantially compared with the same period last year. With stocks remaining low after the Northern Hemisphere production peak, prices can be expected to remain firm. While wholemilk powder prices have risen substantially since mid-1979, the market price had not moved as much as for skimmed milk powder. The reductions in export restitutions since April 1980 had helped to move market prices to the current range of US$1,200-1,400 but market demand was reportedly being held back in expectation of some further change in EEC export subsidies. In the meantime whole milk powder production continued to be maintained at high
Levels in EEC and Australia. New Zealand can be expected to give continued high priority for whole milk powder production in the 1980/81 season. Production of whole milk powder and infant foods in 1980/81 was expected to be in the region of 80,000 to 85,000 tons.

16. The representative of the United States said that the upward trend in his country's milk production had continued in the first six months of 1980, when an increase by more than 3 per cent had been recorded, due in particular to an increase in yield and in the number of milch cows, reflecting a favourable milk-feed price ratio. That increase had been reflected in production of skimmed milk powder, which had risen by some 27 per cent in the first six months of 1980. In addition, skimmed milk powder sales had been down by 43 per cent in the second quarter of 1980 as compared to the same quarter of 1979. Several factors probably had contributed to the sharp decrease in commercial use. The recession had hit hard during the first months of the year, as the unemployment rate had risen swiftly. That, along with still relatively high inflation rates, had led to a substantial erosion in consumer purchasing power which had affected adversely skimmed milk powder and other dairy products sales. The drop off in commercial use and high milk production levels resulted in huge Commodity Credit Corporation (CCC) purchases of skimmed milk powder and other dairy products in the first half of 1980. Skimmed milk powder removals for the first six months of 1980 totalled approximately 157,000 tons, an increase of 185 per cent as compared to the same period in 1979. Stocks of skimmed milk powder had increased sharply, reaching 250,000 tons at 1 July 1980.
17. The representative of Australia said that milk production had been down by 4.3 per cent for the 1979/80 season. That trend was expected to continue in 1980/81 when a further contraction of the order of 3.5 to 4 per cent was forecast. Drought conditions had adversely affected Australian milk production but the decline was mainly the result of government adjustment policies and of long-term trends in this production sector, resulting in substantial declines in production of butter and consequently of skimmed milk powder. Skimmed milk powder production for the 1979/80 season had been about 25 per cent below that of the 1978/79 season. Production for the second quarter of 1980 had been approximately 21.8 per cent lower than the corresponding quarter of 1979. This downward trend was expected to continue during the third quarter of 1980. It was furthermore expected that production in the current 1980/81 season would be below the preceding season's level. Exports, which had totalled some 11,000 tons in the 1979/80 season, were expected to be nil or at most some 5,000 tons in the current 1980/81 season. Stocks of skimmed milk powder at the end of June 1980, at around 8,000 tons, were down to minimal proportions. World market prices of skimmed milk powder were in the vicinity of US$1,200 per metric ton f.o.b. With respect to the market situation for whole milk powder, production had declined by 35.5 per cent in the second quarter of 1980 in relation to the corresponding quarter of 1979. It was expected that production in the third quarter of 1980 would be lower than in the same period of 1979. A decline had been forecast for Australia's exports of whole milk powder in the current 1980/81 season, to the level of some 52,000 tons as against 68,000 tons exported in 1979/80. International prices of whole milk powder were in the vicinity of US$1,200 to US$1,400 per metric ton f.o.b.
18. The representative of the European Economic Community said that in the first half of 1980, milk deliveries to dairies had been up by approximately 3 per cent and according to estimates, were expected to rise by not less than 2.5 per cent over the year 1980. Production of skimmed milk powder had declined by 6 per cent in the first half of 1980 and according to some indications, seemed to have dropped back by about 2 per cent in the first eight months of the year in relation to the corresponding period of 1979. With respect to sales to third countries, an increase had been forecast for commercial exports of skimmed milk powder in 1980. The Committee was informed that the refund on whole milk powder had recently been reduced by ECU 3.70/100 kgs. With the new refund at the level of ECU 87/100 kgs., operators could increase the export price of the product by some US$50 per ton f.o.b. In addition, it had been estimated that whole milk powder production in 1980 would be up 18 to 19 per cent in relation to 1979. In general, the export situation in 1980 could be considered satisfactory.

19. The representative of Finland said that milk production, which had increased by 0.5 per cent in the first half of 1980, was expected to be up by approximately 1 per cent for the year as a whole. Finland's production of whole milk powder in 1980 was expected to be equivalent to exports, in the region of 30,000 tons. It was furthermore expected that that figure might drop back slightly in 1981 to a level around 25,000 tons.

20. The representative of Switzerland said that deliveries of milk, which had risen up to April 1980, were expected to decline by about 1 per cent for the year as a whole. A decline had been forecast for production of skimmed milk powder and butter in the second half of 1980. Exports of skimmed milk powder had been estimated as reaching the level of some 5,000 tons in 1980; taking into account, however, the fairly high levels of stocks, it seemed probable that exports might in the event be higher, reaching 6,000 to 7,000 tons.
21. The representative of Canada said that total milk sales had risen in the first half of 1980, by 5.7 per cent as compared with the first half of 1979, and for the year as a whole a production increase of about 5 per cent could be expected. Production of skimmed milk powder increased considerably from the first to the second quarter of 1980, while exports in the second quarter of the year totalled slightly over 10,000 tons. At 1 August 1980 stocks of skimmed milk powder had stood at 36,900 tons, i.e. 22 per cent above the level at 1 August 1979. Consumption of the principal milk products in the first half of 1980 had been above the level for the corresponding period of 1979.

22. The representative of Hungary said that the increase in milk production had exceeded 5 per cent in the first half of 1980 as compared with the first six months of 1979. Output of skimmed milk powder had risen sharply, by about 50 per cent, in the first half of 1980, and with a consequent increase in stocks. Because of that substantial rise in production, exports of skimmed milk powder might reach 6,000 to 7,000 tons in the course of 1980.

23. The representative of Japan said that stabilization measures had been taken in his country in respect of milk production. For 1979/80 (fiscal year April-May) the increase rate had been 3.3 per cent. In the first six months of 1980, production of skimmed milk powder had declined by about 11 per cent. The situation in Japan was still giving concern, however, because stocks were still rising and had reached 106,000 tons at 1 July 1980, i.e. 10,000 tons above the level one year earlier.

24. The representative of South Africa said that production of skimmed milk powder could be expected to increase in 1980 to some 21,200 tons, i.e. 2,600 tons more than in 1979. It was further anticipated that total domestic consumption would increase in 1980 to about 19,700 tons, as against 18,400 tons in 1979. At 1 July 1980, stocks of skimmed milk powder had totalled 5,125 tons and were expected to reach about 7,400 tons by the end of the year.
25. The representative of Sweden said that skimmed milk powder production had been up 10 per cent in the first six months of 1980. Over the same period, total domestic consumption had declined to 13,600 tons as against 18,200 tons in the corresponding period of 1979. Stocks of skimmed milk powder had stood at 17,200 tons on 1 July 1980, i.e. 4,500 tons above the level at 1 July 1979.

26. The representative of Bulgaria said that his country produced only small quantities of milk powders. Nevertheless, in 1980 production had been slightly above the previous year's level. All the powder produced was intended for domestic consumption.

27. The representative of Argentina said that milk production could be expected to increase in 1980. With respect to the international dairy market, his delegation was of the opinion that the refunds granted by the EEC had a considerable influence on world market trends.

Review of the level of minimum prices for products covered by the protocol

28. In terms of Article 3:3 of the protocol, the Committee reviewed the level of minimum prices for products covered by the protocol.

29. The Committee decided, under Article 3:3 of the Protocol Regarding Certain Milk Powders, that the levels of the minimum prices specified in that Article would be modified to US$500 per metric ton for skimmed milk powder, US$800 per metric ton for whole milk powder and US$500 per metric ton for buttermilk powder. The schedule of price differentials according to milk fat content set forth in Annex Ib to the Protocol Regarding Certain Milk Powders was consequently modified. It was agreed that the decision would take effect at noon on 1 October 1980.

30. The Committee agreed that the decision would be 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.
31. The representative of Argentina said that his delegation had hoped for new minimum prices higher than those on which a consensus had been reached. While his delegation had not opposed the consensus, it was not entirely satisfied. The matter would need to be examined afresh in the near future if circumstances so required.

32. The representative of the United States said that his delegation, in accepting the new minimum prices, wished at the same time to express its opinion on the justification for minimum prices, which it considered to be safeguard prices. They should not be considered as being international support prices nor should they be subject to any automatic indexation or increase. Lastly, his delegation considered that agreed minimum prices reflected the concept of a safeguard.

Other business

Report to the Council

33. The Committee requested its Chairman to make an oral report to the Council at the latter's next meeting.

Date of the next session

34. The Committee decided to hold its next session on 17 December 1980, subject to confirmation by the secretariat.
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