Committee of the Protocol Regarding Certain Milk Powders

Twenty-Seventh Session

Report

Introduction

1. The Committee of the Protocol Regarding Certain Milk Powders held its twenty-seventh session on 29-30 September and 1 October 1986.

Adoption of the agenda

2. The Committee adopted the following agenda:

   A. Adoption of report on the twenty-sixth 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 minimum prices under Article 3:3(b) for products covered by the Protocol
   
   F. Report to the Council
   
   G. Future meetings

Adoption of report on the twenty-sixth session

3. The Committee adopted the report on its twenty-sixth session. This was distributed as document DPC/P/43.

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 second quarter of 1986 to do so without further delay. They were also requested to submit information regarding the third quarter of 1986 by 10 December at the latest.
(ii) Summary tables

5. The Committee took note of document DPC/P/W/32/Rev.1, containing information up to the first quarter of 1986 and document DPC/W/62/Add.1 for the more recent information.

(iii) Other information

6. The Committee also 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.

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 representative of New Zealand considered the current skimmed milk powder prices normal at around US$750-800 per ton, f.o.b. The outlook for this product was positive following the recent upward movement in prices of around US$100 per ton, which was helped by the weakening of the United States' dollar. This increase was attainable partly because of a well balanced production and stock situation in New Zealand, as well as in Australia and Canada. Regarding the whole milk powder situation, he observed that the weakening of the United States' dollar had also helped to prop up its prices to levels of around US$1,000 per ton, f.o.b., well above the GATT minimum.

10. The Japanese delegate informed the Committee that skimmed milk powder production in his country 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 1986, with output in June 1986 running 2.7 per cent lower than in the same month of last year. Stocks were, however, increasing. 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 half of 1986, imports were, however, 14 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$704-715 and US$746-1,051 per ton c.i.f.

11. The representative of Australia indicated that production of skimmed milk powder/buttermilk powder in 1985/86 at 132,700 tons was 11.3 per cent below the 1984/85 output of 149,300 tons due to a diversion of milk fat
from butter to cheese and whole milk powder production. Output of skimmed milk powder during 1985/86 at 124,800 tons was at least 12 per cent lower than in 1984/85, and that of buttermilk powder at 7,900 tons in 1985/86 was 5 per cent below the level of last year. Output of both skimmed milk powder and buttermilk powder was expected to fall in 1986/87 to 124,500 tons, with skimmed milk powder output falling to 117,000 tons and buttermilk powder to 7,500 tons. Domestic consumption of skimmed milk powder buttermilk powder was provisionally estimated to have increased by 1.6 per cent in 1985/86 to around 39,195 tons. Given objective closing stocks of 9,500 tons, export availability of both these products during 1986/87 would be 86,000 tons as compared to 125,200 tons in 1984/85 and 97,000 tons in 1985/86. Exports of skimmed milk powder in 1986/87 were estimated to be around 81,000 tons as against 91,000 tons in 1985/86 and buttermilk exports at 5,000 tons in 1986/87 as against 6,000 tons in the previous year. With regard to the whole milk powder, he said that production in 1985/86 at 52,100 tons was 16.7 per cent up on the level of 44,700 tons in 1984/85, due to an increase in export orders. Output was likely to increase in 1986/87 to a level of 55,000 tons or by 5.6 per cent in response to an increase in market demand. If there was no increase in market demand, the milk was likely to be diverted into butter/skimmed milk powder. Exports in 1986/87 were expected to be close to the level of availability of 44,500 tons as against 40,700 tons in 1985/86 and 36,100 tons in 1984/85.

12. Commenting on the world situation, he observed that the international market for skimmed milk powder, suddenly deteriorated last year when the European Community discontinued its successful internal scheme of subsidizing sales of skimmed milk powder for use as feed for cattle, pigs and poultry. EC stocks had increased by 127 per cent to 1.06 million tons between August 1985 and August 1986. They might fall slightly, but were expected to remain close to 1 million tons at the end of 1986. In his view, the increases in EC export restitutions and the policy of discontinuing publication of restitution levels had failed to increase EC exports and had depressed international prices. Skimmed milk powder quotations in Japan declined from US$800 per ton at the end of 1985 to around US$650 per ton in May 1986. In addition, the United States' stocks at 412,500 tons were still high despite a reduction of 3 per cent over the year to June 1986. Any resurgence of United States milk production could result in excessive skimmed milk powder supplies and thus a worsening of the situation. Current quotations for skimmed milk powder on the international market had slightly firmed up and were in the range of US$740-780 per ton f.o.b. With regard to whole milk powder, he said that after an improvement during 1985, the international demand seemed to be weakening. Price quotations had declined from US$950-1,000 per ton, f.o.b. earlier this year to a current level of US$930-950 per ton, f.o.b. The increase in EC export refunds for whole milk powder in May 1986 was likely to have a depressing effect on the whole milk powder prices.

13. The delegate of Argentina said that in the absence of more up to date figures it was difficult to confirm whether his country had continued to export skimmed milk powder, as it had done in the first quarter of 1986 to the tune of 1,000 tons.

14. The representative of Switzerland said that production of skimmed milk powder in the third quarter of 1986 was 7,250 tons and the forecast for the fourth quarter was 5,700 tons only. The reduction had taken place as a
result of certain government measures to this effect. There had been no imports in the current year. Exports in the third quarter totalled 8,400 tons, but no more exports were envisaged for the rest of the year. Consumption in the third quarter was 3,750 tons and it was forecast to increase to 4,300 tons in the fourth quarter. Stocks at the end of the third quarter were 10,000 tons, but they were expected to increase to 11,500 tons by the end of the year.

15. The Swedish delegate informed that production of skimmed milk powder in the first half of 1986 at 27,700 tons was 23 per cent below the level in the same period of last year. The downtrend was expected to continue during the fourth quarter also. Consumption remained more or less unchanged. Exports, however, were reduced by 44 per cent from 18,600 tons in the first half of 1985 to 10,300 tons in the first six months of 1986. Imports remained static at 300 tons during this period. Average export price in August 1986 stood at US$775 per ton, f.o.b., at the reference point.

16. The delegate of Norway mentioned that the surplus skimmed milk powder was being used for animal feed purposes and for that reason there were no exports from his country. During the first half of the year there were no imports either, but certain unspecified quantities of imports were anticipated for the second half of 1986.

17. The representative of Finland said that production of whole milk powder had an important place in his country's dairy industry. Output of whole milk powder in 1986 was expected to be 31 million kgs., about 9 per cent less than in the previous year. Domestic consumption was of minor importance and therefore was not expected to be more than 7.6 million kgs. in 1986. Export availability was likely to be around 31 million kgs. As regards the export availability of skimmed milk powder, it was estimated to be about 7 million kgs. in 1986. Export prices for skimmed milk powder were relatively high at US$1,100 and above per ton, being a special variety without lactose. Export prices for whole milk powder during the second half of the year were also quite high in the range of US$1,050-1,077 per ton, f.o.b.

18. The delegate of South Africa considered the skimmed milk powder situation healthy in his country. Consumption was running at a level of some 30 per cent higher than last year, with the resultant lowest recorded stock level of 3,319 tons.

19. The Polish delegate said that as a result of the Chernobyl accident, exports of skimmed milk powder had sharply fallen. Stocks had been considerably reduced and his country, from being a traditional exporter of dairy products in the past, had now become a net importer.

20. The spokesman of the EC indicated that production of skimmed milk powder in 1986 would be 8 per cent higher at a level of 2,099 thousand tons from 1,944 thousand tons in 1985. In 1987, however, a decline of 7 per cent was expected when production would revert to the level of 1985. Output of whole milk powder in 1986 was expected to aggregate 3 per cent lower at 715 thousand tons from 736 thousand tons in 1985. In 1987, however, a slight increase could be expected. To promote domestic consumption, subsidies were being given on skimmed milk powder to increase its use as stock feed and the pig-and-poultry scheme, which was
discontinued in April 1985, had been reintroduced with effect from July 1986. As much as 85 per cent of the skimmed milk powder consumed in the Community was subsidized. As of 11 September 1986, skimmed milk powder stocks were of the order of 914,000 tons. In the first eight months of 1986, more than 500,000 tons of skimmed milk powder was held in the intervention stocks despite the decision adopted by the Commission to delay payment for skimmed milk powder sold into intervention stocks for 240 days. Exports of skimmed milk powder in the first half of 1986 totalling 95,000 tons compared very unfavourably with the level of 189,000 tons in the same period of the preceding year. In the whole milk powder sector, the situation was slightly better. Exports at 210,000 tons in the first half of 1986 were only 9 per cent lower, from the level of 231,000 tons in the first half of 1985. Average export price recorded for skimmed milk powder was US$750 per ton, f.o.b., and for whole milk powder US$965 per ton f.o.b.

21. The observer of Canada indicated that production of skimmed milk powder in 1985-86 amounted to 92,570 tons, showing a decline of about 20 per cent from the previous year. Output during 1986-87 was projected to be 90,000 tons. Exports during 1985-86 at 49,410 tons also showed a decrease from a level of 62,620 tons in 1984-85. In the case of concentrated whole milk powder, production in 1985-86 at 115,110 tons was almost one-third less than in the previous year. It was expected to fall further to a level of 100,000 tons in 1986-87. Exports at 77,110 tons were also down from a level of 129,220 tons in 1984-85. Stocks on 21 July 1986 were estimated at 14,300 tons as compared to 25,750 tons on the same date of the previous year. Domestic consumption of whole milk powder had increased significantly to a level of 51,000 tons in 1985-86 compared to 41,000 tons in 1984-85, but the increase was expected to taper off in 1986-87 to last year's level.

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

22. 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.

23. 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$680 and for whole milk powder to US$880 per metric ton. In the 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 2 October 1986.

24. 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.

Oral report to the Council

25. The Committee agreed that an oral report on its discussions at the present meeting would be presented to the Council.
Future meetings in 1987

26. In accordance with Rules 3 and 16 of its Rules of Procedure, a tentative schedule of regular meetings of the Protocol Committees was adopted for 1987. It was, however, understood that any special session would be in addition to this schedule and that all dates would remain subject to confirmation by the secretariat (DPC/W/64).

27. The next session of the Committee will be held on 15-16 December 1986, subject to confirmation by the secretariat. The session of the Protocol Committee Regarding Certain Milk Powders will be followed by the session of the Committee of the Protocol Regarding Milk Fat and then the Protocol Regarding Certain Cheeses.