Arrangement Concerning Certain Dairy Products

MANAGEMENT COMMITTEE

Minutes of the Seventeenth Meeting Held on 24 September 1973

Introduction

1. The Management Committee held its seventeenth meeting on 24 September 1973.

2. The Committee adopted the following agenda:

   1. Adoption of agenda.
   2. Adoption of the minutes of the sixteenth meeting (MCDP/17).
   3. Information required by the Committee under Article IV or other Articles of the Arrangement.
   4. Review of the market situation.
   5. Other business.

Adoption of the minutes of the sixteenth meeting

3. The representative of the EEC requested the following correction to the French text of the minutes MCDP/17 in paragraph 5, line 5, delete "prix d'objectif" and substitute by "prix indicatif". The Committee agreed to this correction and adopted the minutes as amended.

Information required by the Committee under Article IV or other Articles of the Arrangement

4. The representative of the EEC said that present public stocks of skimmed milk powder amounted to about 150,000 tons. Taking into account the zero restitution, present export prices would theoretically be at a level of £87 to £88 per 100 kgs. In actual practice, taking into account the prefixed restitution of 24 u.e. per 100 kgs, exports had recently taken place at prices around $72 - $73 per 100 kgs. f.o.b.
5. The representative of South Africa informed the Committee that his authorities, in view of their butter surpluses, were trying to limit the local manufacture of skinned milk powder as much as possible. This measure implied that South Africa would rely more on imports to meet its requirements of skinned milk powder.

Review of the market situation

6. The Committee had before it a secretariat note prepared at its request relating to the results of the application of the Arrangement and the evolution of the situation of the international market (MCDP/W/25).

7. Commenting on the note, the representative of the EEC considered that more emphasis might have been put on the relationship between skinned milk powder and other forms of protein, referred to in paragraph 19.

8. The representative of New Zealand said that the increase in New Zealand stocks levels reported in the note had come about mainly because his country had increasingly taken on a warehousing function for its regular clients. This increase thus did not represent an accumulation of stocks at the expense of commercial sales, but merely a larger proportion as compared with stocks held by its clients. This increase reflected also a shift in the demand for skinned milk powder relative to casein, leading to a greater throughput of the latter. Commenting on the note as a whole, he agreed with the representative of the EEC that the interrelationship between milk proteins and other protein forms could be more specific. In this context he pointed to the increase in import demand for skimmed milk powder by the United States. The recommendation of the United States Department of Agriculture to the Tariff Commission to liberalize completely the controls on imports of skimmed milk powder coupled with a fall in United States domestic production could influence the world market of skimmed milk powder for some time to come.

9. Referring to the information on Canadian production of skimmed milk powder, in paragraph 10 of the note, the representative of Canada said that production had continued to decline but it was hoped that it might level off and stabilize. Producers had received increases in returns because it had been recognized that in order to produce sufficient quantities of milk they required adequate returns. There were tendencies in the feed sector which were affecting the net returns to producers and this had far-reaching implications for decisions by producers to continue in milk production. The cost pressures to which producers were exposed would have a bearing on the level of milk output in the Northern Hemisphere and on the availability of supplies. Referring to the data on stocks in Table 4 of the note, he pointed out that the figures might not always be comparable; depending on the basis on which members reported them, some figures might reflect the stocks held for intervention purposes as well as those held by private firms while others might indicate public stocks only.
10. The representative of South Africa drew attention to an error in paragraph 3 of the note, which listed his country among those which had been granted a derogation from the provisions of paragraph 5 of Article III. He recalled that his delegation had made a request for a derogation at the first meeting of the Committee, but had subsequently withdrawn it.

11. The representative of Australia said that Australian production of skimmed milk powder in the year ended June 1973 had increased by 28 per cent to 105,200 tons. It was estimated that there would be a further increase in production for the 1973-74 year to about 115,000 tons. However, because of recent adverse weather conditions in Southern Australia, it would be some time before a realistic assessment of production levels could be made. At present, markets appeared to be very buoyant but prices while tending to firm were still unsettled following the recent revaluation by 5 per cent of the Australian dollar. Stocks of skimmed milk powder at the end of July were down to 6,000 tons and were fully committed.

12. Recalling the discussions which had taken place in the Committee in earlier meetings on the subject of a possible modification of the minimum price, the representative of Austria said that the minimum price should not just follow any currently prevailing supply and demand situation but should fulfil its function as a minimum price level. However, taking into account the present market situation and the developments in the currency markets, in particular the devaluations of the United States dollar, the present level of minimum price appeared to be too low. For these reasons he supported the opinions which had been put forward at earlier meetings that a new minimum price of $35 per 100 kgs. seemed to be more justified and appropriate.

13. The representative of New Zealand recalled that his delegation had never advocated adjustments in the minimum price in response either to short-term market fluctuations or to every currency realignment. New Zealand's own trading experience, as one of the staple suppliers to world markets, indicated a very tight situation up to the end of the 1974 production season. He had earlier referred to the demand situation in the United States. Despite stock build-ups in the EEC, the Community had not yet seen it necessary to introduce an export restitution. All these factors pointed to a continuing strong level of demand of skimmed milk powder and the continuation of the new trading plateau. Secondly, the question of three successive and major currency alignments should be taken into account. If one were to equate the existing minimum of $25 per 100 kgs. to present terms an increase of between 16 and 18 per cent would be needed. In his view, the question of security of returns to the efficient producers was really at issue. If a level of $25 per 100 kgs. came under pressure now it would probably be insufficient to keep the efficient producers in business with any confidence. The producer had to be given more security than was afforded by the existing price of $25 per 100 kgs. From the combination of the Arrangement covering skimmed milk powder and the Protocol relating to Milk Fat it was possible to assess something like a "total security" afforded to the dairy producer and express it for whole milk.
The ratio of non-fat and fat prices in the minimum prices of the two agreements is 1 to 2.7 which had reflected the relative commercial values of these products when the agreements had been negotiated. But the present ratio in the marketplace was around 1 to 1.40 revealing that the minimum price for skimmed milk powder was disproportionately low as compared to that for milk fat. He urged the Committee to give serious consideration to what minimum price would be required to reintroduce confidence in the Arrangement and to bring it back into focus with present marketing conditions. He concluded by suggesting a new minimum price of $35 per 100 kgs, as the appropriate level.

14. The representative of South Africa said that his position was fully covered in the minutes of the previous meetings. In his view, the minimum price was a price which could and should be modified when the two criteria provided for in paragraph 3 of Article III necessitated such a modification. He shared the view expressed by the representative of Switzerland at the previous meeting and considered that the whole agreement might prove to be very frustrating if the minimum price could not be changed after the market situation had changed. His authorities attached great importance to commodity agreements such as the Arrangement but these agreements must be allowed by both importers and exporters to be truly functional. He recalled that a relationship existed between the minimum price and the world price. While this relationship would not justify an upward adjustment based on short-term fluctuations in market prices, the high levels at which the market prices had been fluctuating over the past two years showed that they were no longer of a short-term nature. Therefore, his authorities were ready to agree to an increase in the minimum price to a more realistic level. In his view, the minimum price should ensure reasonable returns to efficient producers in the exporting countries but it should at the same time not be raised to a level that it would be difficult to sustain in the long term. He recalled that his delegation had agreed earlier to an increase in the minimum price to $30 per 100 kgs. In the meantime, his authorities had reconsidered this question and were now ready to accept an increase to $35 per 100 kgs. If agreement could be reached, his authorities would expect the new minimum price of $35 to remain unchanged for a long period of time.

15. The representative of Canada pointed out that demand for skimmed milk powder would be unlikely to decline in the foreseeable future. Proteins of animal origin were becoming more valuable to human nutrition and certainly to animal nutrition as the demand for feedstuffs of high protein content increased. On the other hand, price pressures were exerted on the production side; producers sought to receive prices at which it was worthwhile to produce. Therefore, the question was one of ensuring sufficient supplies and the key at this point of time was the relationship between the cost of production and demand. In the view of his authorities an upward adjustment in the minimum price was indicated. At the current minimum price Canadian production of skimmed milk powder could not be sustained for any length of time. For Canada,
the minimum price was an indication of the long-term structural development of demand and supply; the minimum price should be increased for fundamental structural supply and demand reasons. His authorities would agree to a slight upward adjustment in the minimum price to either $30 or $35 per 100 kgs.

16. The representative of Japan recalled that his Government kept the matter of a possible modification of the minimum price under constant review, particularly taking into account the supply and demand situation, in its aim to uphold the principles of international co-operation in this important sector of the trade of dairy products. However, the position of the Japanese Government had remained unchanged. The minimum price should be regarded as a floor price aimed at preventing a precipitate fall of market prices below the fixed minimum. A modification in the minimum price should take place only if a fundamental change in production and market structures had clearly occurred. Production of skimmed milk powder was at a higher level, consumption appeared to be stagnant and stock levels were quite high. The recent restrictions on exports of certain products taken by certain countries and also the measures taken in response by some other countries might explain the recent upward trend in prices of skimmed milk powder which might represent a rather temporary phenomenon; therefore it was prudent to watch the situation very carefully for the months to come. He added that he would convey the views and arguments put forward in the Committee to his authorities and he would urge them to continue to keep the matter under constant review.

17. The representative of Australia recalled that at the previous meeting he had supported an increase in the minimum price to $30 per 100 kgs. Since then, the market appeared to have firmed considerably largely in response to continuous strong demand for proteins. Bearing in mind the changes in the world market situation and the results of currency alignments in the last two years a change in the minimum price appeared to be needed. He recalled that the revaluation of the Australian dollar further reduced the Australian dollar equivalent of the floor price. Australia could go along with those delegations which felt that an increase in the minimum price to a level of $35 per 100 kgs. would be more appropriate.

18. The Committee noted that consensus had not been reached as to a modification of the minimum price under paragraph 3 of Article III of the Arrangement. It also noted that the representative of Japan would transmit to his Government all the views and arguments that had been put forward at the present meeting. It was therefore agreed that the question would be included in the agenda of the next regular meeting.

Other questions

19. The representative of the EEC said that certain imports of skimmed milk powder into the United States had encountered some difficulties on sanitary grounds. He asked the United States representative whether he could inform the Committee about the health and sanitary regulations being applied or which might be applied with regard to imports of skimmed milk powder. In reply, the
representative of the United States said that there had been no change in these regulations. However, there was a proposal to make certain changes. The matter had been brought to the attention of the various interested countries by his Government who had asked for comments before moving ahead fully with the proposed legislation.

20. The Committee agreed to hold the next regular meeting on 10 December 1973, subject to confirmation by the secretariat.
ANNEX/ANNEXE

List of Representatives - Liste des Représentants

Acting Chairman:  Mr. J.H. Kraus
Président par interim:

AUSTRALIA  Mr. P.M. Schulz
BELGIUM  Mr. R. Luxen
CANADA  Mr. J.F. Stone – Dr. H. Mestern
DENMARK  Mr. E. Olsen
FRANCE  M. R. Louzé
GERMANY, FED. REP. OF  M. Raigaut
JAPAN  Mr. W. Popp
NETHERLANDS  Mr. K. Johanssen
NEW ZEALAND  Mr. H. Kaya
SUISSE  Mr. D. Helskamp
SOUTH AFRICA  Mr. F. Kritha
UNITED KINGDOM OF GREAT BRITAIN  Mr. W. Falconer
AND NORTHERN IRELAND  M. H. Buchmann
COMMUNAUTES EUROPEENNES  Mr. O.J. Kok
COMMISSION

OBSERVERS/OBSERVEURS

AUSTRIA  Mr. H. Opelz
UNITED STATES OF AMERICA  Mr. N. Thuroczy