

GENERAL AGREEMENT ON

RESTRICTED

Spec(88)4

11 February 1988

TARIFFS AND TRADE

International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS

Thirty-Second Session

Draft Report

Agenda items A, B, F, G, and H

1. As agreed by the Committee, agenda items A, B, F, G and H were discussed at a joint session of the three Protocol Committees and have been incorporated in Spec(88)2.

Transactions other than normal commercial transactions

2. The Committee noted that no transactions other than normal commercial transactions had been reported in this sector.

Sales under derogations

3. 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

4. The spokesman for the EC said that the major victims of a reduction in milk deliveries in 1987 were butter and skimmed milk powder. The output of skimmed milk powder dropped by 24 per cent, but the output of whole milk powder increased by 10 per cent. The increase in the output of whole milk powder was, however, nearly offset by an equal decline in the production of condensed milk due to the growing tendency on the part of its traditional importers to manufacture their own condensed milk with the locally available pure water. As regards exports, a considerable increase took

place in the exports of skimmed milk powder when they totalled 290 thousand tons in the first three quarters of 1987 from 194 thousand tons in the same period of 1986, i.e. a rise of 50 per cent. This marked a positive improvement in the situation because the EC had previously experienced a considerable drop in its share of world market from 60 per cent in 1980 to 26 per cent in 1986. There also had been an improvement in food aid, from 30 thousand tons in 1986 to 63 thousand tons in 1987. Exports of whole milk powder in the first three quarters of 1987 totalling 485 thousand tons, were 42 per cent more than their level of 342 thousand tons in the corresponding period of last year. This, however, should be seen against the background of a drop in the exports of condensed milk. Average export prices had also shown some improvement lately. The price of skimmed milk powder attained a level of US\$1,200 per ton f.o.b., while that of whole milk powder was US\$1,300 per ton f.o.b. An improvement in the general situation was also noticeable from the absolute level of public intervention stocks which fell from 832 thousand tons on 31 October 1986, to 656 thousand tons on 31 October 1987, or by about 20 per cent.

5. The representative of Switzerland told the Committee that production of skimmed milk powder in the first nine months of 1987 was down by 13 per cent to a level of 19.5 thousand tons compared to that in the same period of last year. The downward trend was continuing in November and December and in 1988 a further decrease was expected. There were no imports, and exports in the third quarter of 1987 were down by more than 60 per cent compared to their level in the third quarter of 1986. Average export price at US\$724 per ton was below the IDA minimum price in the third quarter which was due to the fact that contracts had been signed during the second quarter before the price increase took place. In November, around 2,900 tons were delivered to various destinations, and prices were above US\$1,000 per ton f.o.b. As regards whole milk powder, production in the first nine months of 1987 at 10,200 tons was more or less stable compared to its level of 10,700 tons in the same period of last year. An increase was expected in the months of November and December in relation to an anticipated increase in milk prices. Imports during this period amounted to 1,900 tons compared to only 1,200 tons last year and exports were

insignificant. Average export price in the third quarter was fairly high at a level of US\$3,500 per ton f.o.b., because of the specialized nature of products exported.

6. The Swedish delegate said that production of skimmed milk powder in the third quarter of 1987 showed a slight decrease compared to its level in the corresponding period of the previous year. Consumption fell from 5,600 tons to 4,300 tons during this period, while both exports and imports in the third quarter were significantly higher than their last year's levels. The forecast for 1988 was that both production and consumption would remain stable at their respective levels of last year.

7. The delegate of Norway mentioned that both production and consumption of skimmed milk powder increased in the third quarter of 1987, but the forecast for 1988 showed that production might drop a little bit.

8. The representative of Finland said that production of skimmed milk powder and whole milk powder in 1987 was expected respectively at 38 thousand tons and 36 thousand tons. In 1988, a further decline was anticipated in the output of both these products. Average export price in the third quarter for skimmed milk powder was US\$800 per ton f.o.b. and for whole milk powder US\$948 per ton f.o.b.

9. The representative of South Africa mentioned that the production of skimmed milk powder in 1987 was 25 per cent smaller mainly due to reduced production of milk. Consumption was down by some 15 per cent. As regards whole milk powder, production in 1987 was likely to be 20 per cent lower and consumption 12 per cent down.

10. The representative of Poland said that production of skimmed milk powder in the first three quarters of 1987 amounted to 114 thousand tons as against a normal output of 140 thousand tons. Exports in this period were 23 thousand tons and for the entire year of 1987 were estimated to be 27 thousand tons or slightly lower than the normal level of 30 thousand tons. As regards whole milk powder, domestic production was just enough to meet domestic consumption and therefore nothing was being exported.

11. The representative of New Zealand reiterated that the market for skimmed milk powder was experiencing a rapid change. Prices had significantly firmed up since they were raised last time by the Protocol Committee. They were likely to go up further in light of certain developments in the major dairy producers - a low level of uncommitted CCC stocks in the United States and a substantial decline in the EC butter production. New Zealand's own production of skimmed milk powder during 1986/87 had been reduced by nearly 20 per cent. Some recovery was expected in this in 1987/88, but this would be on the assumption of improved climatic conditions and within the twenty year range of production between 6 and 8 million tons. The decision of the Community in respect of refunds had been instrumental in improving the situation as a reduction in unpublished refunds helped the EC to lift its own export prices to around US\$1,150 to US\$1,200 per ton, as against the IDA minima of US\$765 per ton. As regards whole milk powder, the EC accounted for 70 per cent of world exports while New Zealand took the remaining 30 per cent. A reduction in the EC subsidies had led to some improvement in prices, which ranged between US\$1,250 and US\$1,300 per ton. Even though EC production was reportedly 18 per cent higher than its level in 1986, the supplies were generally tight and the market was in good shape. New Zealand's own output of whole milk powder was stable as against the 1985/86 level, although some increase was expected in 1987/88.

12. The Japanese delegate indicated that the output of skimmed milk powder in fiscal year 1986 at 171 thousand tons was 8 per cent below the level in 1985. In fiscal year 1987, production dropped by 15.5 per cent between April and September compared to its level in the same period of last year. Imports in 1986 at 91 thousand tons were 12.7 per cent less than in 1985, when the LIPC imported 8 thousand tons of skimmed milk powder for human consumption purposes but which had not yet been released on to the market, due to slackening domestic supply and demand. Average import price in 1986 was reckoned at US\$716 per ton c.i.f. for animal feed purposes and US\$903 per ton c.i.f. for human consumption purposes. Average prices paid between January-October 1987 were respectively US\$762 per ton and US\$1,012 per ton c.i.f.

13. The representative of Australia told the Committee that total skimmed milk powder/buttermilk powder production in the July-September 1987 period at 29.3 thousand tons was 8.7 per cent down on the corresponding period in the 1986/87 season, when it was 32.1 thousand tons. While skimmed milk powder output decreased from 30.4 thousand tons to 27.5 thousand tons, buttermilk production increased marginally from 1.7 thousand tons to 1.8 thousand tons. The overall decline was due to the decline in butter production as a result of the diversion of milk fat from butter to cheese and whole milk powder production, and the reduction in milk deliveries to processors. Estimated production of skimmed milk powder/buttermilk powder in 1987/88 was 117 thousand tons as against 136.9 thousand tons in 1986/87. Skimmed milk powder production was expected to decrease from 128.5 thousand tons to 109 thousand tons, whereas buttermilk powder production was expected to fall from 8.4 thousand tons to 8 thousand tons. Domestic sales of skimmed milk powder/buttermilk powder in 1987/88 were expected to increase by 1.6 per cent from 44.3 thousand tons in 1986/87 to around 45 thousand tons in 1987/88. The share of skimmed milk powder was expected to increase by 2.1 per cent from 42.1 thousand tons in 1986/87 to 43 thousand tons in 1987/88 and that of buttermilk powder was expected to decrease by 9.1 per cent from 2.2 thousand tons in 1986/87 to 2 thousand tons in 1987/88. Exports in 1986/87 were about 89.7 thousand tons, comprising 84.4 thousand tons of skimmed milk powder and 5.3 thousand tons of buttermilk powder. In 1987/88, exports were forecast at about 77 thousand tons, of which skimmed milk powder would be 72 thousand tons and buttermilk powder would be 5 thousand tons. Closing stocks for 1987/88 were forecast at 8.1 thousand tons. Commenting on the world situation, he was of the view that the international market for skimmed milk powder remained firm as current prices ranged between US\$1,000-US\$1,100 per ton f.o.b. In September, the IDA minimum price for skimmed milk powder was raised from US\$765 to US\$825 per ton f.o.b. Supply was expected to remain tight for the remainder of 1987/88 and prices were therefore likely to continue to rise. Both Australia and New Zealand had committed their entire export availability for the remainder of 1987/88.

14. As regards whole milk powder, he mentioned that the Australian production in the July-September 1987 period at 15.9 thousand tons was the same as for the corresponding period in 1986. Production was forecast to increase by 7.2 per cent in 1987/88 to 70 thousand tons, as against 65.3 thousand tons in 1986/87, in response to the continuing trend in international market demand. Domestic sales of whole milk powder were expected to decrease by about 3.7 per cent in 1987/88 to 13 thousand tons as against 13.5 thousand tons in 1986/87. Exports in 1987/88 were forecast at 57 thousand tons as against 51.5 thousand tons in 1986/87. Closing stocks for 1987/88 were forecast at 7.3 thousand tons. In regard to the world situation, he said that recent quotes for whole milk powder on the international market had been in the vicinity of US\$1,050 per ton f.o.b., indicating that the market was continuing to remain firm. The IDA minimum price for this product was increased on 23 September to US\$950 per ton f.o.b. With the cessation of intervention buying of butter by the EC, more than usual had been diverted from butter to whole milk powder production. As a result, there had been some increase in world supplies. Due to continued strong demand, however, prices had not been adversely affected. Both Australia and New Zealand had committed their entire export availability for the remainder of 1987/88.

15. The observer from the Economic Commission for Europe told the Committee that the USSR production of milk powders in 1986 increased by 3 per cent and by 4 per cent in the first ten months of 1987. The USSR imported 84.5 thousand tons of milk powders in 1986, showing a 22 per cent increase over the quantities imported in 1985.