

# WORLD TRADE ORGANIZATION

RESTRICTED

**IDA/CMP/3**

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## **International Dairy Agreement**

### **COMMITTEE ON CERTAIN MILK PRODUCTS**

#### **Report of the Second Session**

**(19 June 1995)**

1. The Committee on Certain Milk Products held its second session on 19 June 1995.
2. The Committee adopted the following agenda:
  - A. Adoption of report of the first meeting
  - B. Adoption of questionnaires (IDA/W/5)
  - C. Information required by the Committee:
    - (i) Replies to questionnaires:  
Questionnaire 1: Milk Powders  
Questionnaire 2: Milk Fat  
Questionnaire 3: Cheese
    - (ii) Summary tables
    - (iii) Other information
  - D. Transactions other than normal commercial transactions
  - E. Sales under derogation
  - F. Communication from the Permanent Mission of Japan (IDA/CMP/W/3)
  - G. Review of the market situation
  - H. Adoption of report to the Council
  - I. Date of next meeting

**A. Adoption of report of the first meeting**

3. The report of the first meeting was adopted and distributed as document IDA/CMP/1.

**B. Adoption of questionnaires (IDA/W/5)**

4. The Committee agreed to consider the proposed formats for Questionnaires 1-5, regarding information to be furnished under Article III of the Agreement and Rule 23 of the Rules of Procedure (IDA/W/5), at its next meeting.

**C. Information required by the Committee**

**(i) Replies to Questionnaires 1, 2 and 3**

5. The Committee reviewed the replies to Questionnaires 1, 2 and 3. Parties were requested to provide all the relevant information concerning the second quarter of 1995 by 15 September 1995.

**(ii) Summary tables**

6. The Committee took note of the summary tables based on information provided up to the fourth quarter of 1994 in respect of milk powders, milk fat and cheese, issued as document IDA/CMP/W/4.

**(iii) Other information**

7. The Committee also took note of the information which the Secretariat had compiled on production, trade, stocks and consumption of dairy products in the United States.

**D. Transactions other than normal commercial transactions**

8. The Committee noted that no new relevant information had been received by the Secretariat.

**E. Sales under derogation**

9. The Committee took note of a notification by New Zealand of sales under derogation in accordance with Article 7:2 of the Annex on Certain Milk Products (document subsequently issued as IDA/CMP/W/5).

**F. Communication from the Permanent Mission of Japan (IDA/CMP/W/3)**

10. The Committee had before it a communication from the Permanent Mission of Japan (IDA/CMP/W/3 and Rev.1 - Rev.1 in English only). The Committee approved an amendment to the "Annex on Certain Milk Products - Attachment C: Japan" in accordance with the provisions of Article 3, paragraph 5, of said Annex. A Procès-Verbal signed by the Director-General of the World Trade Organization will be prepared and certified true copies will be distributed to the Members of the World Trade Organization.

**G. Review of the market situation**

11. Parties gave the following reports on the market situation in their respective countries.

## **Switzerland**

12. Milk deliveries totalled 3.07 million tons in 1994, an increase by 1.8 per cent compared with 1993. However, deliveries were estimated to have decreased by 2.3 per cent in the first four months of 1995 compared with the corresponding months of 1994.

13. Comparing the first quarter of 1995 with the first quarter of 1994, production of skimmed milk powder decreased by 15 per cent to 7,800 tons, while consumption decreased by 41 per cent to 4,100 tons. Exports, which were nil in the first quarter of 1994, increased to 1,100 tons in the first quarter of 1995. Stocks at the end of the first quarter of 1995, at 6,300 tons, were 13 per cent higher than their level one year earlier.

14. Production of butter in the first quarter of 1995 decreased by 4 per cent to 10,900 tons. Imports remained negligible. Stocks at the end of the first quarter of 1995, at 5,000 tons, were at normal levels.

15. With regard to cheese, output decreased slightly (by 1 per cent) in the first quarter of 1995 to 29,800 tons, while consumption decreased by 3 per cent to 21,900 tons. Exports increased by 4 per cent to 14,600 tons while imports decreased by 6 per cent to 6,800 tons. Stocks at the end of the first quarter of 1994 increased by 11 per cent to 30,000 tons compared to 27,000 tons one year earlier. This high level of cheese stocks was of concern. It was decided to take measures in order to reduce the production of Emmental and Gruyère cheeses by 5,000 tons.

## **Norway**

16. Comparing the first quarter of 1995 with the first quarter of 1994, skimmed milk powder production decreased by 34 per cent to 1,500 tons. Consumption decreased also by 16 per cent to 1,400 tons. Production of whole milk powder increased to 650 tons while consumption increased slightly to 400 tons. There were no substantial exports or imports of milk powders in the first quarter of 1995.

17. Butter production was 4,200 tons, a decrease by 8 per cent. Domestic consumption increased slightly. There were no imports of butter in the first quarter of 1995, while exports amounted to 2,200 tons, 88 per cent more than the comparable period of 1994.

18. Production of cheese amounted to 21,900 tons, an increase by 2 per cent. Domestic consumption increased by 1 per cent to 15,200 tons. Imports at 500 tons were down by 9 per cent. Exports increased by 13 per cent to 5,900 tons.

## **New Zealand**

19. While total milk production was expected to exceed previous seasons' volumes, milk flows through the 1994/95 season were somewhat erratic due to variable weather patterns. Early season production was significantly ahead in the first three months of the season due to good winter stock and pasture condition. In the first quarter of 1994/95, milk production was 14 per cent above the corresponding quarter of 1993/94. This coupled with early calving dates meant the production peak was well ahead of earlier seasons. However, a very cold October/November period significantly eroded these gains, so that milk solids' production was down by more than 3 per cent below the level recorded to November 1993. This reduction was further exacerbated by a dry period from December 1994 through February 1995 where milk flows were still 3 per cent below the previous season. With the onset of autumn, regular rainfall and mild weather saw a recovery in milk flows, and monthly levels from March through May first levelled off and recovered to levels close to and above the 1993/94 season. In what has proven to be the second highest production season on record, final milk flow

was expected to be close to 730 million kgs. milk solids or 8,620 million litres, 0.3 per cent below and 0.2 per cent above the previous season, respectively.

20. A review of the number of cows recorded on animal registers indicated that the increase in cow numbers between the 1993/94 and 1994/95 seasons was 6.5 per cent. The larger than expected increase is explained by a change in survey series and improved data collection procedures. The absolute increase in cow numbers was 160,000. The increase in the total number of cows was important as a contribution to milk flow growth. However potential increases in milk volume have been partially offset by the fact that per cow milk production has been lower through 1994 than the levels recorded in 1993, also coincident was lower total milk solid yields. Climatic conditions remained the major contributing factor to short-term volume changes.

21. All production from the 1994/95 season was fully committed to customers. The lower than expected production in the middle of the season meant that for much of the last six months the availability of uncommitted supplies were extremely tight.

22. Regarding dairy product manufacture and supply, export sales volumes were estimated at 1.1 million tons of product, an increase by 7 per cent from the level in 1993/94. The product mix remained in line with the New Zealand Dairy Board's approach of pursuing a value-added business, which meant increased production and diversification in cheese and milk powders. In comparison with the product mix for last season, butter and other fat bearing product production decreased by 14 per cent from 305,000 tons in 1993/94 to 263,000 tons in 1994/95. Whole milk powder production was steady. The production of whole milk powders including nutritional products and infant milk powder totalled 343,000 tons, an increase of 10,000 tons over 1993/94. Cheese production increased only slightly from 193,000 tons in 1993/94 to 194,000 tons in 1994/95. Skimmed milk powder produce rose from 141,000 tons to 145,000 tons and casein production fell from 79,000 tons to 68,000 tons.

23. With regard to the current market situation, spot trading prices for major products were all dramatically higher than they were at the beginning of the 1994/95 season. For milk powder and butter, the increase was of the order of 50 per cent. For these products, prices were at, or near, record levels. There were, however, two important aspects of this increase in prices which needed to be taken into account. The increase was in terms of the US dollar, the value of which fell steadily, not only relative to the New Zealand dollar but to other currencies as well. Much of the increase had therefore been nominal rather than real. The largest part of the increase, and most of the real increase, occurred in a relatively short period in January and February after major commitments of current season production had been made to customers.

24. The movement of in-market pricing was still lagging behind the movement of spot trading prices. This was especially the case for cheese and casein. The increase in prices has been the result of a combination of reduced availability of butter and skimmed milk powder from the Northern Hemisphere with milk production static and surplus stocks absorbed domestically; reductions in bonuses and subsidies paid on export products ranging from US\$60/ton for skimmed milk powder to US\$460/ton for butter; the fall in the value of the US dollar which had the effect of keeping European export prices high when expressed in US dollars; less than expected supply availability from Australia and New Zealand (and, for milk powder, reduced availability from Eastern European suppliers) and a steady off-take in import markets, when taken as a whole.

25. The indicative export prices in the second quarter of 1995 were as follows:

	<u>US\$ per ton f.o.b.</u>
Skimmed milk powder	1,950-2,400
Whole milk powder	1,900-2,300
Butter	1,500-2,350
Butter oil	1,650-2,400
Cheese	1,950-2,250

26. Regarding the outlook, the market had reached a crucial juncture. It was not yet in a stable equilibrium. For the short term at least, the good balance of the market was likely to be maintained. There were no overshadowing surpluses. On the other hand, prices were vulnerable to further fickle movements in currency values; particularly to a strengthening of the US dollar which would lower European prices. As the year progresses the scaling back of domestic subsidy programmes in Europe; the availability of the new season's supplies from Australia and New Zealand; and the attraction to the market of additional United States supplies (especially of butter) were likely to result in easier market conditions.

27. Spot trading prices of butter and butter oil now reached levels of US\$2,300/ton f.o.b. but only limited volumes were transacted at these levels. These prices were unlikely to be sustainable other than in the short term, in large part because of the availability of butter from the United States (without subsidy) at prices currently down to US\$1,600/ton f.o.b. Consequently, in the second half of the year it was likely that spot trading prices would come back below US\$2,000/ton f.o.b.

28. Skimmed milk powder prices rose to US\$2,100/ton f.o.b. with whole milk powder prices now slightly ahead of these levels. The market was less vulnerable to being undermined by US supplies than was the case for butter, though it was more exposed to easier supply conditions from the European Union.

29. The movement in export prices for cheese in the last year was much less dramatic than for other products. As for casein, in-market pricing had lagged a considerable distance behind the potential for improved returns created by higher European export prices. In the year ahead, the curtailment of subsidized exports of cheese should provide much brighter export market and pricing prospects than was likely to be faced by other products.

30. Despite improving international prices, New Zealand's export terms of trade deteriorated with the firm appreciation of the New Zealand dollar. Despite hedging, the rise of the New Zealand currency cost the industry an estimated NZ\$0.35/kg. milk solids. The final price announced for the 1994/95 season for producers was NZ\$3.00/kg. milk fat. This was NZ\$0.40 above the advance set at the commencement of the season. The advance price of NZ\$2.65/kg. set for the 1995/96 season was 25 cents higher than last season's opening price. The New Zealand Dairy Board expected a final price of between NZ\$3.00-NZ\$3.10 reflecting confidence in firm pricing through the following twelve months.

## **Japan**

31. Production of milk had gradually recovered since November 1994, when the milk producers' organization changed the milk production target to a 1.9 per cent reduction level for fiscal year 1994 compared to the 2.9 per cent reduction level of fiscal year 1993. The total production of raw milk during the first quarter of 1995 followed the same trend as that of 1994. Due to the increase in the demand for drinking milk, and despite the strong demand for skimmed milk powder, skimmed milk

powder production declined compared to the same period of the previous year. In order to cope with this situation, the LIPC (Livestock Industry Promotion Corporation) imported 17,000 tons of skimmed milk powder between November 1994 and March 1995. Regarding butter, the decrease in domestic consumption contributed to butter stocks remaining at a high level.

32. Comparing the first quarter of 1995 with the same period of 1994, total milk production increased slightly by 0.3 per cent. The demand for drinking milk increased by 2.3 per cent, however milk used for processing dairy products decreased by 1.9 per cent. The production of whole milk powder increased by 11.1 per cent while production of butter and skimmed milk powder decreased, respectively, by 15.5 and 5.5 per cent. Demand for cheese was still growing and its production increased by 5.3 per cent.

33. In the first quarter of 1995, imports of skimmed milk powder, including imports by the LIPC, increased by 65 per cent to 31,000 tons. Compared to the previous quarter, the average import price of skimmed milk powder for human consumption fell slightly by 2.4 per cent and that for animal feed rose by 13.5 per cent. Compared to the same period of the previous year, the average import price of skimmed milk powder for human consumption rose by 8.8 per cent and that for animal feed rose by 10.1 per cent.

34. Butter imports increased by 12.8 per cent to 1,600 tons in the first quarter of 1995. The average import price in the first quarter of 1995 rose by 14.7 per cent compared to the previous quarter. Compared to the same period of the previous year, the average import price of butter rose by 4.2 per cent.

35. Compared with the same period of last year, natural cheese imports increased by 3.5 per cent in the first quarter of this year while processed cheese imports increased by 33.3 per cent. The import price of natural cheese fell by 2.1 per cent compared to the previous quarter, while that of processed cheese remained stable with a rise of only 0.3 per cent. The import price of natural cheese and processed cheese rose, the former by 6.8 per cent and the latter by 15.2 per cent, compared to the same period of the previous year.

### **Hungary**

36. In the first quarter of 1995, there were no significant changes in the Hungarian dairy market. The long decline experienced during previous years seemed to end, however signs of a new sustainable growth were still awaited.

37. In the first quarter of 1995, butter production expanded compared to the first quarter of 1994 but was still under the volume of production in the first quarter of 1992. Exports of butter, which were nil in the first quarter of 1994, increased to 1,000 tons. The average export price was slightly above US\$2,000 per ton.

38. Production and consumption of cheeses stabilized in the first quarter of 1995 at a fairly high level compared to that of previous years. However, there was a decline in trade in cheeses.

### **European Community**

39. The market situation in the dairy sector of the European Union remained firm with demand adequate to meet available supplies. Supplies of milk increased following the start of the 1995/96 quota year but these new supplies were quickly absorbed. The butter and skimmed milk powder markets remained very firm while some adjustments were taking place in the cheese sector. Milk prices paid to producers were tending downwards in a number of member States, with some exceptions due in part to currency movements. The fall in producer prices was due to the implementation of institutional

price cuts (3 per cent on butter in July and August 1994) and to increased competition between dairies within the European Union for market share because of the future reductions in subsidized cheese exports. The reductions in internal supports for butter destined for pastry and ice-cream manufacture and for skimmed milk used in the manufacture of casein as well as the reduction in export subsidies were factors contributing to this price situation.

40. The Council continued its negotiations on the 1995/96 price package and it is expected that a conclusion would be reached soon. The Ministers accepted the Commission's conclusions that the milk quota system was now being satisfactorily applied in Greece and Italy. The quota system was therefore applied presently throughout the Union.

41. Milk deliveries in the EC-12 increased sharply in the beginning of the new quota year in April. Production in the EC dairy sector in the first three months of calendar year 1995 compared to the corresponding period of calendar year 1994, was as follows:

<u>January-March 1995 compared to</u> <u>January-March 1994</u>	
Milk deliveries	+ 2.0 %
Production	
Skimmed milk powder	+ 1.0 %
Other milk powders	No change
Of which:	
Whole milk powder	- 2.0 %
Butter	+ 8.0 %
Cheese	+ 2.5 %

42. Milk deliveries and production patterns in the EC-15 for the first three months of 1995 were similar to the EC-12. Milk deliveries for the EC-15 were also 2 per cent up on 1994; butter production was 7 to 8 per cent above 1994, skimmed milk powder production was 1.7 per cent up, whole milk powder production was 2 per cent down and cheese production 2.4 per cent up compared to the first quarter of 1994.

43. Since January 1994, there had been a move away from whole milk powder towards butter/skimmed milk powder and cheese. The output of cheese was continuing to increase.

44. The butter market remained buoyant. The market price at ECU 328/100 kgs., was about 10 per cent above the effective support level. The strong demand for butter with subsidies for use in the pastry and ice-cream sector led to reductions in the aid levels in the past months. The aid level had been reduced from ECU 145/100 kgs. in March to ECU 127/100 kgs. in June. The volume of butter requested under this scheme in 1995 up to June amounted to 215,000 tons compared with about 208,000 tons in 1994, an increase of about 3 per cent.

45. The skimmed milk powder market was also buoyant with prices at about ECU 219/100 kgs. or about 6 per cent above the effective support level. Some 45,000 tons of skimmed milk powder were sold from intervention for the animal feed sector from January to June 1995. During the first four months of 1995 the volume of skimmed milk used by the calf feed and casein sectors fell by 1.8 per cent. There was an increase in uptake in the casein sector and a decrease in the uptake in the calf feed sector. The Commission took a decision to reduce the casein aid level from ECU 7.5/100 kgs. to ECU 6.75/100 kgs. of liquid skimmed milk used in the manufacture of casein. This reduction will become effective before the end of June 1995.

46. The stocks of dairy products in intervention stores remained at very low levels. However, there was a seasonal build up of publicly financed private butter stocks. The total butter stocks (public and private) were currently at 89,000 tons. Present skimmed milk powder stocks were at 26,000 tons. The volume of cheese subject to private storage contracts was relatively stable at 97,000 tons.

47. The information on export volumes for 1995 available to the Commission was scarce. The indications for the first month or two months of 1995 in a small number of member States, were that skimmed milk powder, butter and butter oil exports showed some recovery while cheese exports decreased. However, data for 1994 was now complete. The absolute volumes exported in 1994 and the percentage changes compared with the corresponding data for 1993 were the following:

	<u>Quantity</u> ( '000 tons)	<u>Percentage change</u> 1994/93
Fresh products	328	- 0.3 %
Condensed milk	286	- 18.5 %
Skimmed milk powder	138	- 51.2 %
Whole milk powder	586	+ 0.7 %
Butter	83	- 20.9 %
Butter oil	58	- 24.7 %
Cheese	510	- 1.8 %

48. Export refunds for dairy products were decreased on 12 May 1995 by between 3 per cent and 5 per cent, except for butter and cheese. Export refunds were again reduced at the end of May by a further 3 per cent for selected powders and condensed milks and by 5 per cent for cheese.

49. The world market for dairy products remained firm as of 1 July 1995 when the European Union will implement the Uruguay Round Agreement on the milk sector. A number of factors were contributing to this firm situation, mainly the tight supply situation and the reasonable attitude of the European Union and the United States with regard to export and subsidy policies. World market prices were relatively strong in US dollar terms but the US dollar was historically weak. The Committee will need to monitor these factors closely for the next six to nine months.

50. The European Union's calculated export prices for the second quarter of 1995 were as follows:

	<u>US\$ per ton f.o.b.</u>
Skimmed milk powder	2,100-2,260
Whole milk powder	2,150-2,450
Butter	2,220-2,500
Butter oil	2,350-2,700
Cheese	2,250-2,375

## **Australia**

51. Milk production in 1994/95 should total around 8,200 million litres. While this was an increase of around 1.5 per cent on 1993/94 production, it was slightly below the initial estimate of 8,300 million litres. The lower than expected production was due to a variety of factors including drought conditions in several milk producing regions and higher feed grain prices due to drought conditions in grain growing regions of Australia. Most dairying regions experienced very good autumn conditions thereby providing a solid base for both late 1994/95 and early 1995/96 seasonal production.



Assuming that reasonable seasonal conditions will continue, it was expected that 1995/96 milk production will be around 8,500 million litres, an increase of around 3.5 per cent over 1994/95 output. Other important factors influencing 1995/96 production include: easing in feed grain prices; increased farm gate prices for manufacturing milk due to the continued upward trend in world prices for most major traded dairy products; some increase in the national dairy herd; and, general productivity gains.

52. Production of most manufactured products was slightly lower in 1994/95 than in 1993/94. This was due to the lower milk fat and protein content of milk in 1994/95 caused by the altered feed regimes in dairying regions affected by the drought. The exception was whole milk powder which recorded a rise in production as a result of recent increased production capacity and improved market opportunities.

53. Domestic demand for dairy products increased in 1994/95 due mainly to improved economic conditions in Australia. The market has also been supported by further new product development and associated marketing effort. Demand opportunities also remained strong in the non-retail sector, buoyed by increased growth in both the fast food and food service/catering sectors. After several years in which per capita consumption of liquid milk remained virtually unchanged, there was a slight increase in 1994/95. This reflected increased marketing effort and generally altered business strategies as processors responded to a less regulated operating environment.

54. As of 1 July 1995, the Market Support Scheme (which had operated since 1986) will cease. Its replacement, the Domestic Market Support Scheme, aims to provide the domestic dairy industry with the same overall level of benefit as the Market Support Scheme. The main changes include altered dairy industry levies and the payment of the scheme benefits direct to farmers. Under the Market Support Scheme, the benefits were paid to manufacturers and were passed on to farmers as part of manufacturers' farm gate price for manufacturing milk. Under the new scheme, there will be no monies paid to manufacturers involved in exporting. The change to the Domestic Market Support Scheme has not resulted in increases in either domestic market prices or farm gate returns - rather the mechanism has been altered, with increased transparency to the net beneficiaries, i.e. farmers.

55. International dairy prices (with the exception of cheese prices which have remained stable) have continued to rise steadily from historically high levels in March, despite the seasonal peak in EU milk production having been reached in May. The steady price increases were due to continuing strong demand from Asia, very low EU and US stocks, a weak US dollar, unavailability of product from Australia and New Zealand for spot trade and the impact of substantial EU export subsidy cuts in 1994-95.

56. A number of factors have influenced higher butter and anhydrous milk fat (AMF) prices, including tight EU and US market conditions reflected in very low butter stocks; the impact of substantial EU export subsidy cuts of 17.2 per cent for butter in 1994-95; continuing weakness of the US dollar against major EU currencies. Currently world butter prices were in the range of US\$2,000-US\$2,200 per ton (US\$650-US\$850 above the IDA minimum price), while AMF prices ranged from US\$2,300-US\$2,400 per ton (at least US\$675 above the IDA minimum). EU public stocks were at historically very low levels, and stood at 27,684 tons on 1 June 1995. Similarly, US public stocks were historically low at 4,851 tons as of 19 May 1995.

57. Skimmed milk powder (SMP) was currently trading at around US\$2,300 per ton or US\$1,100 per ton above the IDA minimum price. Powder prices have responded to solid international demand and very low EU and US public stocks. EU public stocks of SMP stood at 31,658 tons on 1 June 1995, while US stocks totalled 10,146 tons on 19 May 1995. In Japan, manufacturing demand for SMP was strong and stocks were low. The strong SMP demand resulted in the LIPC calling a June tender of 17,000 tons for delivery in two tranches in July and August. Product unavailability

in Australia and New Zealand resulted in product being sourced from Europe, with the exception of 899 tons from Canada.

58. Whole milk powder (WMP) prices maintained their strength and (in contrast to the situation in recent times) were actually higher than SMP prices. WMP prices were currently in the range of US\$2,300-US\$2,400 per ton, which was from US\$1,050-US\$1,150 per ton above the IDA minimum price. WMP price increases this year were due to various factors including higher milk fat prices, lower New Zealand production (and hence exports) and strong demand from Russian and Asian markets. Demand in Asian markets resulted from growing consumer demand for WMP sachets for drinking milk purposes in preference to the traditional reliance on sweetened condensed milk.

59. In contrast to world prices for the other major traded dairy products, world prices for cheese remained stable. Bulk Cheddar was currently trading in the range of US\$1,950-US\$2,000 per ton, which was at least US\$450 per ton above the IDA minimum price. The stabilization of world cheese prices was due, in part, to higher production in the EU. EU manufacturers have invested heavily in cheese-making facilities reflecting its value as a domestic growth sector, unlike butter/SMP. For economic reasons (capacity utilization) it was more viable to keep cheese plants running than switching to butter/SMP despite the latter's current higher returns.

#### **H. Adoption of report to the Council**

60. The Committee agreed that a summary report of the discussions at the present session would be submitted to the Council. This report was subsequently circulated as IDA/CMP/2.

#### **I. Date of next meeting**

61. The next regular session of the Committee will be held on 18-19 September 1995, subject to confirmation by the Secretariat.