

WORLD TRADE ORGANIZATION

RESTRICTED

IDA/CMP/4

13 February 1996

(96-0523)

International Dairy Agreement

COMMITTEE ON CERTAIN MILK PRODUCTS

Report of the Third Session

(16 October 1995)

1. The Committee on Certain Milk Products held its third session on 16 October 1995.
2. The Committee adopted the following agenda:
 - A. Adoption of report of the second 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. Review of the market situation
 - G. Oral report to the Council
 - H. Date of next meeting
- A. Adoption of report of the second meeting**
3. The report of the second meeting was adopted and distributed as document IDA/CMP/3.

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

4. The Committee noted that this item would be considered by the Council.

C. Information required by the Committee

5. The Committee reviewed the replies to Questionnaires 1, 2 and 3 for the first and second quarters of 1995. It took note of the summary tables based on information provided up to the second quarter of 1995 in respect of milk powders, milk fat and cheese, issued as document IDA/CMP/W/6. 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

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

E. Sales under derogation

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

F. Review of the market situation

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

Switzerland

9. Comparing the second quarter of 1995 with the second quarter of 1994, production of skimmed milk powder increased by 8 per cent to 10,800 tons, while consumption decreased by 14 per cent to 8,300 tons. Imports and exports were nil in the second quarter of 1995.

10. Production of butter in the second quarter of 1995 increased by 3½ per cent to 12,500 tons. Imports remained negligible and it was expected that they would remain negligible in the second half of 1995. Stocks at the end of the second quarter of 1995 were at 8,400 tons compared to 7,300 tons one year earlier. Measures were being taken to reduce the level of butter stocks.

11. With regard to cheese, measures had been taken in the first half of 1995 to reduce production by 5 per cent. It was expected that production would also decrease in the second half of 1995. Exports increased slightly in the first half of 1995 but the outlook was for a decrease in exports in the second half of 1995. Imports decreased slightly (by 1 per cent) in the first half of 1995 to 14,700 tons. It was expected, however, that imports would increase in the second half of 1995. Consumption decreased slightly and it was expected to continue to decline. Stocks at the end of the second quarter of 1995 increased by 4 per cent to 30,000 tons compared to 28,900 tons one year earlier. This high level of cheese stocks was of concern. It was decided to take measures in order to reduce the level of stocks.

Norway

12. In the third quarter of 1995, there were no significant changes in the Norwegian dairy market. There was a continued decline in the production of milk as the ceiling set for total production within the quota system had been, and still was being, reduced by the Government. Production of the various dairy products was thus expected to remain fairly stable in 1995 as compared to 1994. Total production of milk in 1995 was expected to decline by ½ per cent as compared to 1994 with a further reduction

by ½ per cent in 1996. Consumption of fresh products was continuing to decline and was expected to follow the same downward trend in 1996.

13. Comparing the second quarter of 1995 with the second quarter of 1994, skimmed milk powder production decreased by 18 per cent to 1,300 tons. Production of whole milk powder decreased to 250 tons while consumption remained stable at 250 tons. There were no substantial exports or imports of milk powders in the second quarter of 1995.

14. Butter production was 3,500 tons in the second quarter of 1995, an increase by 2½ per cent. For the whole year of 1995, production was expected to remain unchanged at around 14,000 tons as compared to 1994. Domestic consumption in the first and second quarters remained stable. Exports of butter rose in the first quarter but declined in the second quarter due to fluctuations in the exchange rate of the US dollar. There were no imports of butter in the second quarter of 1995. Production of anhydrous milk fat decreased, respectively, by 29 and 41 per cent in the first and second quarters of 1995. Exports and imports were nil in the first half of 1995 while domestic consumption remained stable in that period.

15. Production of cheese for 1995 was expected to increase by 3 per cent to 83,000 tons and to remain unchanged at this level in 1996. Exports were forecast to increase by 4 per cent in 1995 but the outlook for 1996 was for a decrease by 6 per cent. The main destinations were the European Community, the United States, Canada and Japan. Imports of cheese were stable in 1995. Domestic consumption of cheese was increasing slightly, following the trend of the past few years.

Romania

16. Comparing the second quarter of 1995 with the first quarter of the same year, production of skimmed milk powder, whole milk powder, butter and cheese increased as a result of stabilization of Romania's economy. However, the levels of production were still below the real potential of Romania's dairy industry.

17. As from 1 August 1995, Romania started the "fast privatization process" under which more than 3,000 companies will be privatized. All food industry, including the dairy sector, will be privatized under this process which is expected to be finalized by mid-1996. After a period of stagnation, it is expected that the dairy sector will become more competitive.

New Zealand

18. The 1994/95 season started with production in exceeding the high levels of 1993/94. During the summer, production declined below year earlier levels because of dry weather conditions. However, in the final months of the season production recovered significantly and surpassed by a considerable amount the levels of previous years. In the end, total milk production on a milk solids basis was 732 million kgs. compared to 735 million kgs. in 1993/94. To date, in 1995/96, production had been below expectations, largely because of wet and cold conditions in many dairying regions. Despite this, current estimates were that for the full 1995/96 season, production would exceed 1994/95 by 2 to 3 per cent.

19. For the 1994/95 season, the New Zealand Dairy Board (NZDB) announced a final price of NZ\$3.00/kg. milk solids to farmers. This was slightly above earlier estimates and also above the 1993/94 level of NZ\$2.90. The average level of payment to farmers from dairy co-operatives was NZ\$3.40/kg. per milk solids. This compared to NZ\$3.32 per kg. for 1993/94. For the 1995/96 season, the NZDB had announced an average price of NZ\$2.65/ kg. per milk solids with an expected final payment of NZ\$3.00 to NZ\$3.10, however there were indications that these prices would be significantly increased.

20. The international market remained in a good position for exporters such as New Zealand. In the European Community, the market was characterized by tightened availability of skimmed milk powder and butter. Stocks remained at low levels. This had underpinned a strong price position for all products except cheese. The higher EC internal prices were reflected in higher export prices which had been boosted by significant subsidy cuts across a range of products. Currency factors had also been important. The continued weakness of the US dollar had maintained prices at high levels when expressed in US dollars. On the supply side, lower than expected production in New Zealand and Australia in 1994/95 had contributed to the level of prices. This had been supported by the considerable degree of commitment to markets in 1994/95, continuing into 1995/96.

21. In the United States, production had increased but this had mainly been absorbed by domestic consumption. In the first six months of 1995 Dairy Export Incentive Program (DEIP) sales, particularly of skimmed milk powder, were at a high level. Currently bonuses for DEIP sales were at much lower levels.

22. The indicative export prices in the third quarter of 1995 were as follows:

	<u>US\$ per ton f.o.b.</u>
Skimmed milk powder	2,150-2,250
Whole milk powder	2,200-2,300
Butter	2,100-2,300
Butter oil	2,350-2,500
Cheese	2,150-2,350

23. The outlook for the remainder of 1995 was for prices to remain around existing levels with limited scope for further increases. The key factor would be developments in the EC internal market including the product mix.

Japan

24. The total production of raw milk during the second quarter of 1995 decreased slightly (by 2 per cent) compared with the corresponding quarter of 1994. The demand for drinking milk decreased by 3 per cent, however, milk used for processing dairy products decreased only marginally. The production of whole milk powder increased sharply (by 24 per cent) while the production of butter and skimmed milk powder decreased, respectively, by 2½ and ½ per cent. Demand for cheese was still growing and its production increased by 7 per cent.

25. In the second quarter of 1995, imports of skimmed milk powder increased by 23 per cent to 29,100 tons. Compared to the previous quarter, the average import price of skimmed milk powder for human consumption rose by 6½ per cent and that for animal feed rose by 19½ per cent. Compared to the same period of the previous year, the average import price of skimmed milk powder for human consumption rose by 31½ per cent and that for animal feed rose by 32 per cent.

26. Butter imports decreased by 87 per cent to 83 tons in the second quarter of 1995. The average import price in the second quarter of 1995 rose by 38 per cent compared to the previous quarter. Compared to the same period of the previous year, the average import price of butter rose by 52½ per cent.

27. Compared with the same period of last year, natural cheese imports increased by 23 per cent in the second quarter of this year while processed cheese imports increased by 14½ per cent. The

import price of natural cheese rose by 4½ per cent compared to the previous quarter, while that of processed cheese rose by 9 per cent. The import price of natural cheese and processed cheese rose, respectively, by 8 and 19½ per cent, compared to the same period of the previous year.

28. Specific dairy products, such as butter and skimmed milk powder, used to be subject to quantitative import restrictions. Such dairy products, however, were tariffed, as of 1 April 1995, in accordance with the Uruguay Round Agreement on Agriculture. The Livestock Industry Promotion Corporation (LIPC) handles in-quota imports of designated dairy products for general use, which, under the current access opportunities, amount to 137,202 tons (whole milk equivalent basis). In this connection, 18,000 tons of skimmed milk powder were imported before June 1995, and 3,000 tons of whey and modified whey were scheduled to be imported by the LIPC to meet the committed current access level. In addition, apart from the committed opportunities, 17,000 tons of skimmed milk powder were imported before August, in response to the strong summer demand.

European Community

29. Since the previous meeting of the Committee in June 1995 the Council of Ministers adopted the 1995/96 price package. The final agreement did not include the 2 per cent price reduction in the butter intervention price proposed by the Commission.

30. The market situation in the dairy sector of the European Community continued to improve in recent months, resulting in further reductions in internal aid levels and in export subsidies. Dairy cow numbers in the EC-12 declined between June 1994 and June 1995 by about 1½ per cent to 20.7 million head. Milk yield per cow, however, was estimated to have increased by about ½ per cent in 1994 to 5,200 kgs., and a more substantial increase was forecast for 1995. Milk prices paid to producers in a number of member States were lower in 1994 than in 1993. Prices continued to fall in the early part of 1995 but in the past two months they had begun to increase again.

31. Production in the EC-12 dairy sector in the first seven months of calendar year 1995 and in the first three months of quota year 1995/96, compared to the corresponding period of calendar year 1994 and quota year 1994/95, was as follows:

	<u>January-July 1995 compared to January-July 1994</u>	<u>April-July 1995 compared to April-July 1994</u>
Milk deliveries	+ 2.0 %	+ 2.0 %
Production		
Skimmed milk powder	+ 2.5 %	+ 4.5 %
Other milk powders	+ 4.0 %	+ 3.0 %
Butter	+ 5.0 %	+ 2.5 %
Cheese	+ 4.0 %	+ 3.5 %

32. Production in the EC-15 dairy sector in the first seven months of calendar year 1995 compared to the corresponding period of calendar year 1994, was as follows:

January-July 1995 compared to
January-July 1994

Milk deliveries	+ 2.0 %
Production	
Skimmed milk powder	+ 1.5 %
Other milk powders	+ 4.5 %
Butter	+ 4.0 %
Cheese	+ 3.5 %

33. The butter market remained buoyant. The market price was about 5 per cent above the intervention price of ECU 328.2/100 kgs. or about 17 per cent above the effective support level. Butter consumption in the Community increased by about 1 per cent in 1994 and this upward trend continued into 1995. The strong demand for butter subsidized for use in the pastry and ice-cream sectors led to the aid level being further reduced by ECU 2/100 kgs., bringing the total reductions in 1995 to ECU 21/100 kgs. The level of aid on butter was now at ECU 125/100 kgs. The volume of butter allocated to the industry in 1995 was about 334,000 tons or about 7 per cent more than in 1994, but part of that increase was due to the new member States.

34. The skimmed milk powder market was also buoyant. The market price was about 11 per cent above the intervention price. Small volumes of skimmed milk powder were sold from intervention for the animal feed sector since June, bringing the total amount sold in 1995 to about 50,000 tons. There were no further stocks available for sale for the animal feed sector. During the first eight months of 1995, the volume of skimmed milk used by the calf feed and casein sectors increased by 1 per cent. There was an increase of 28 per cent in up-take in the casein sector and a decrease of 13 per cent in the up-take in the calf feed sector. In October 1995, the Commission took a decision to further reduce the casein-aid level by 7½ per cent from ECU 6.75/100 kgs. to ECU 6.25/100 kgs. of liquid skimmed milk used in the manufacture of casein. In 1995 to date, the casein-aid level had thus been reduced by 17 per cent.

35. The cheese market remained weaker than in 1994 due to increased production and competition between manufacturers for market share within the European Community.

36. The stocks of dairy products in intervention stores remained at very low levels. Public stocks of butter were currently less than 20,000 tons. Present skimmed milk powder stocks were at 14,000 tons. The volume of cheese subject to private storage contracts was at 116,000 tons.

37. The export performance of EC-12 in 1995 was positive. Traders apparently made serious efforts to export before 1 July 1995 when the European Union implemented the Uruguay Round Agreement in the milk sector. For the first seven months of 1995, the percentage changes in the exports by some member States compared with the corresponding data for 1994 were the following:

	<u>Percentage change</u> <u>First seven months of 1995 compared to the</u> <u>First seven months of 1994</u>
Fresh products	+ 12 %
Condensed milk	+ 26 %
Skimmed milk powder	+ 187 %
Whole milk powder	+ 1 %
Butter	+ 182 %
Butter oil	+ 3 %
Cheese	+ 1 %

38. Export refunds for dairy products were decreased substantially in 1995. Since the previous meeting in June, export refunds were reduced by 10 per cent for skimmed milk powder, by 7½ per cent for condensed milk and by 10 per cent for certain cheeses. These reductions contributed to the strong world market situation. However, a number of factors which contributed to the strong internal market situation in the European Community in 1995 and to the strong world market situation might not be present in 1996. For example, demand from Russia for EC butter and cheese, strong demand from Japan for skimmed milk powder, the lower than expected deliveries in Oceania and the very low stocks of dairy products in the European Community and in the United States. The high world market prices in 1995 might influence producers' decisions for 1996 especially in the United States and also in other major dairy exporting countries. These factors will need to be monitored closely in the remainder of 1995 and in 1996.

39. The European Community's calculated export prices for the third quarter of 1995 were as follows:

	<u>US\$ per ton f.o.b.</u>
Skimmed milk powder	2,200-2,380
Whole milk powder	2,200-2,480
Butter	2,300-2,550
Butter oil	2,450-2,750
Cheese	2,300-2,500

Bulgaria

40. The representative of Bulgaria informed the Committee that his country had recently ratified the International Dairy Agreement.

41. It appears that the recent negative developments and trends in the dairy sector were now relatively slow, and the opportunity for recovery was soon possible.

42. Production of skimmed milk powder was still insignificant and imports in the second quarter of 1995 amounted to 500 tons, mainly from Ukraine, Poland, Lithuania, the Russian Federation, the Netherlands and Germany. Exports reached only 100 tons, the destinations being Albania, Romania and Turkey. Production of whole milk powder in the second quarter of 1995, at 800 tons, was double the output in the corresponding quarter of 1994. Imports amounted to 400 tons from Germany, Sweden, the Russian Federation, France and the Netherlands. Exports were insignificant.

43. Production of cheese, at 16,000 tons, increased by 15 per cent compared to the second quarter of 1994. Imports amounted to 300 tons from Turkey, Denmark, Estonia, Germany, France and

Lithuania. Exports of cheeses, at 1,200 tons, were the half of the exports in the second quarter of 1994 and far below the levels of the previous years. One of the reasons for this sharp drop was the poor quality control of cheese production in the private sector. The Government would soon introduce obligatory licensing for producers and exporters of dairy products. The main destinations for cheese exports were the United States, Lebanon, Australia, the former Yugoslav Republic of Macedonia, Germany, Albania and the Russian Federation.

44. Butter production was still at a very low level, i.e. about 600 tons in the second quarter of 1995, unchanged as compared to the second quarter of 1994. Imports of butter decreased by 86 per cent to reach only 200 tons, mainly from Germany and France. Exports were insignificant.

Hungary

45. In the second quarter of 1995, skimmed milk powder production increased significantly. However, both domestic consumption and exports remained stable compared to the previous quarter. Consequently, stocks at the end of June 1995 registered a substantial increase.

46. Production and domestic consumption of butter decreased slightly while exports declined substantially, primarily to the Russian market. Export prices of butter were declining but were still well above the IDA minimum export prices. Stocks at the end of June 1995 were higher than in the beginning of the second quarter due to the drop in exports.

47. A general improvement in the cheese sector was registered. Production and domestic consumption had further improved compared to the previous quarter. There was a significant expansion in exports, mainly to Mediterranean destinations, accompanied by strengthening export prices.

Australia

48. Milk production in the season 1994/95 beginning on 1 July 1994, totalled just over 8,200 million litres, 2 per cent higher than the previous season but lower than initial estimates. The lower than expected production was due mainly to seasonal conditions and some reduced use of feed grain, which reflected lower relative profitability due to both higher purchase costs and lower farmgate prices for manufacturing milk. Despite improved market returns, total 1994/95 butter/butter oil production decreased by 6 per cent to 135,000 tons. Skimmed milk powder production declined by 5 per cent to 197,000 tons. This reflected increased casein output and ongoing increases in production of liquid skimmed milks, especially liquid skimmed concentrate. Following recent plant investment and market trends, whole milk powder production was again higher in 1994/95. At around 109,000 tons, production was almost 18 per cent higher than 1993/94. Cheese production in 1994/95, at 211,000 tons, was almost 10 per cent lower than 1993/94, due to lower than expected late season production and weaker relative export market returns compared to butter and milk powders.

49. The international market situation remained very positive. With the European Community entering its seasonally low production period, and spring production not yet peaking in Australia and New Zealand, product availability for spot trade was scarce. This was particularly so for butterfat, with very low stocks and availability world-wide.

50. The indicative export prices in the third quarter of 1995 were as follows:

	<u>US\$ per ton f.o.b.</u>
Skimmed milk powder	2,150-2,300
Whole milk powder	2,300-2,400
Butter	2,250-2,500
Butter oil	2,600-2,750
Cheese	2,150-2,250

Canada

51. There were two major policy changes that took place in the Canadian dairy sector in 1995: the pooling of special classes of milk and the reduction in the federal direct subsidy on industrial milk.

52. Canadian provincial authorities had introduced special class prices to replace levies because of the inclusion of producer-financed levies as export subsidies in the Uruguay Round outcome. Special prices for certain special uses, i.e. food ingredients, had been applied since 1 August 1995. The revenues on these sales were being pooled monthly across all milk producers to equalize producer financial participation nationally in the same way as the previous levy system did. The impact of these changes on production and consumption was expected to be minimal. The only change might come from a larger participation from the processing industry, but there was no indication that this would indeed happen.

53. The February 1995 federal budget indicated that the federal dairy subsidy was to be reduced by 30 per cent over two years. Effective 1 August 1995, the subsidy was decreased by 15 per cent from Can\$5.43 per hl. to Can\$4.62 per hl., and to Can\$3.80 per hl. effective 1 August 1996. Total subsidy payment was estimated to fall from the previous Can\$228 million to Can\$194 million in 1995/96 and to Can\$160 million in 1996/97. Consultations with interested parties in Canada were continuing on the future of the remaining subsidy after 1996.

FAO

54. FAO recently completed its quantitative assessment of the impact of the Uruguay Round's Agreement on Agriculture on major agriculture markets. The projections utilized average production, trade and consumption in the period 1987-89 as a base period against which the projected changes to 2000 were compared. The approach to FAO's assessment was to compare the outcome in the year 2000 in the absence of the Uruguay Round ("Baseline 2000") with the outcome incorporating Uruguay Round provisions ("Uruguay Round 2000").

55. At the world level, virtually no change in milk demand and production is expected to result from the Uruguay Round. However, on a regional basis, the Agreement is projected to stimulate higher production in Oceania following increased export opportunities, which will be offset by a contraction in Europe and the area of the former USSR. Similarly, the Round is expected to have a slight positive impact on production in Latin America.

56. The overall level of trade in milk and milk products is not expected to be affected by the Uruguay Round; however, there will be some redistribution in terms of region of origin and destination. The reduced volume of subsidized exports from several developed countries will, to some extent, be offset by increased commercial exports from Oceania. Growth in export opportunities is also likely to promote the expansion of shipments by some developing countries, especially in Latin America. A decrease in the proportion of subsidized exports of milk and milk products is expected to result in higher prices,

which could restrain imports by many developing countries. In contrast, imports by some developed countries could be increased as a result of minimum access agreements under the Uruguay Round.

57. Over the next five years, demand for milk and milk products will continue to grow in the developing countries, in particular in those areas with higher rates of economic growth. South and South-East Asia and Latin America could see the strongest growth in demand. Production should grow in those areas where demand is strongest. In terms of volume of milk produced, noteworthy growth can be expected in the Indian sub-continent, China and the southern-cone countries of Latin America. In most developing countries, great scope exists for increasing milk yield per animal. Restricted export supplies relative to import demand on the international market should ensure that current high prices for dairy products are generally maintained over the next few years. For the developing countries, this would make domestic production more competitive with imports and, for some, open up avenues for export. Among the developing countries, the principal beneficiaries of increased export opportunities are expected to be the countries of South America; in addition, India may further develop its exports of skimmed milk powder. Despite increased milk production amongst the developing countries and some growth in exports, this group of countries as a whole is expected to remain a substantial net importer of milk products. The quantity of milk products given as food aid to developing countries has declined during the first half of the 1990's; however, difficulty in meeting Uruguay Round commitments to reduce subsidized exports could result in isolated increases of food aid. The international promotion, and popularity, of items such as pizza, yogurt and ice-cream will stimulate consumption, especially in those regions where milk and milk products do not form part of the traditional diet, such as in South-East Asia.

58. Under a situation where international supplies are in short supply, higher-income developing countries (South East Asia and Latin America) will increasingly be the focus for dairy exports, while shipments to lower income countries (Africa, south of Sahara and some Middle East countries) may be reduced. The targeting of higher income countries, should be accompanied by a general switch to higher value-added dairy products and increased trade in products for retail sale rather than bulk commodities for processing. Similarly, an increase in milk products tailored to the demand in higher-income developing countries is also expected. An example of one such product would be the New Zealand Dairy Board's "Imulin" - a low fat, low lactose milk powder targeted at health-conscious Asian adults with a relatively high level of lactose intolerance. Similarly, strong growth in calcium enriched milk powder is expected in South East Asia where consumers are concerned that a lack of this mineral in their diets can cause osteoporosis. Finally, many international dairy companies have established processing plants in developing countries. In the past, such plants were often oriented towards the reprocessing of bulk products. However, more recently, such ventures have tended to incorporate the promotion of domestic milk production into their operations, for example, through the establishment of demonstration farms and the introduction of improved breeding stock. Should international prices remain high, it is likely that such international processors will in the future seek to source more of their supplies locally.

G. Oral report to the Council

59. The Committee agreed that an oral report of the discussions of the present session would be submitted to the Council. This report was incorporated in the report of the Council (IDA/5).

H. Date of next meeting

60. It was noted that the Council would consider the calendar of meetings.