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COMMISSION COMMUNICATION TO THE COUNCIL
ON THE SUPPLY OF FOOD AID IN THE FORM
OF SKIMMED-MILK POWDER AND BUTTEROIL
TO INDIA FOR THE SECOND PHASE OF
"OPERATION FLOOD"

COM(77) 541 final.

In transmitting this communication, the Commission would like to emphasize the importance and the novel character of the proposals it is submitting.

This is the first time the Community would be contributing through direct food aid to the execution of a vast rural development project in, moreover, a non-ACP country, namely India. It would be directly encouraging a rational nutritional policy such as the Commission would like to see adopted elsewhere in the third world (see Commission Communication to the Council on "Nutritional and developmental perspectives for dairy products in the Third World". (1)

Such a project would also be the first of its kind to be jointly financed by the EEC and the World Bank, and this might make it an interesting experiment with a view to further operations of the same type.

Moreover, a favourable decision would confirm the recent trend for direct Community aid to take the form of direct aid for the execution of specific projects, above and beyond support for the balance of payments.

By its note verbale of 8 July 1977, the Indian Government requested Community food aid for the execution of a project to develop milk production and consumption. The project is a seven-year one (July 1978-June 1985), but food aid is needed for the first six years only. The quantities involved are:

186 000 t of skimmed-milk powder

114 000 t of butteroil

or an annual average of 31 000 t of skimmed-milk powder and 19 000 t of butteroil.

I. BASIC DATA

To promote rural development, the Indian Government launched Operation Flood in 1970. The Community participated in this project by supplying skimmed-milk powder and butteroil, in particular via the WFP (World Food Programme)¹; the aim of the project was to develop the dairy sector, to improve the quality of milk, to increase supplies in the four main urban centres (Bombay, Calcutta, Delhi and Madras) and to increase the income of producers.

The project was initially scheduled to last for five years and then had to be prolonged for a further two years but its aims were achieved. The project has improved not only the supply of milk to the main urban centres, but also living conditions in rural areas for almost a million milk-producers' families, whose income has increased by between 50 and 100%. An efficient dairy system has been set up, and the appropriate rural organizations created: cooperatives, cooperative unions and

¹ From 1970 to 1976 the Community has supplied for this project, via the WFP, 58 500 t of skimmed-milk powder and 28 300 t of butteroil. Part of the quantities the Community allocated direct to the Indian Government have also gone to this project: 7 750 t of skimmed-milk powder and 6 000 t of butteroil. The annual average for this project is therefore some 9 500 t of skimmed-milk powder and 5 000 t of butteroil. It should be noted that direct Community aid to India for Operation Flood and other uses averaged approximately 5 000 t of skimmed-milk powder and 1 000 t of butteroil per year over the period from 1974 to 1976.

federations. The necessary steps have been taken to improve the productivity of the cattle and many dairies have been set up. According to a report from the Executive Director of the WFP¹, the project excited enthusiasm at all levels; from the farmers right through to the central authorities.

In view of these results, the Indian Government is planning to launch the second phase of the project, for which it is requesting direct Community aid for the purpose of:

- (i) improving living conditions by 1985 for 10 million milk-producing families, through the creation of an efficient dairy industry capable of treating 13 million litres per day more than the present 6 360 000 litres²;
- (ii) creating a distribution network to cover the 142 towns with a population of over 100 000, i.e. a total of 150 million people;
- (iii) creating the infrastructure needed for an efficient dairy industry, including an artificial insemination system, the production of vaccines, the development of methods of preservation, etc.;
- (iv) providing a balanced diet by means of an adequate supply of milk and milk products (estimated at 180 g per person per day).

The total cost of the project is about \$550 million. It would be financed through:

a World Bank loan (36% - nearly \$200 million);

the counterpart funds derived from food aid (49% - \$270 million);

funds from the first phase of "Operation Flood" (15% - approximately \$80 million).

The Indian Dairy Corporation would be the Government's executive agent. The World Bank has stated that it would give favourable consideration to granting a loan; the dossier is being appraised in detail so that a final decision can be reached as soon as possible.

¹WFP/CFA: 2/12-B(i) (Sept 76).

²This increase in treatment capacity alone will cost some \$180 million; it would take up the bulk of a World Bank loan.

II. THE ROLE OF FOOD AID IN THE PROJECT

The role of the food aid would be:

1. To help expand the market for milk and milk products, thus encouraging an increase in local production, which will gradually supplant the food aid. This aim is reflected in the expected trend - see table below - of local produce and food aid for reconstitution as milk:

	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>Total</u>
Food aid in the form of milk powder ('000 t)	9	18	36	45	27	9		144
Food aid in the form of butteroil ('000 t)	2	3	6	7	5	1		24
Food aid in the form of milk powder and butteroil expressed as liquid milk equivalent (million l)	99	197	394	492	295	99		
Local produce (million l)	1 442	2 329	3 066	3 942	4 913	5 858	6 687	

These quantities of skimmed-milk powder and butteroil will go into a central pool - managed by the Indian Dairy Corporation - which will also receive local produce. The pool will be used during periods of low production (monsoon season and so on);

2. To be used for the manufacture of infant foods. The quantities of milk powder and butteroil required for this purpose are as follows:

	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>Total</u>
('000 t)								
Milk powder	3	6	12	9	6	6		42
Butteroil	1	2	4	3	2	2		14

After transformation (mixing with cereals and sugar), for which the Indian Dairy Corporation would be responsible, these quantities would be distributed free of charge to 1 650 000 people (mothers and children);

3. To help cover the country's shortfall in edible oil by supplying butteroil - to be sold as such on the domestic market - which would provide counterpart funds that would be used to finance the local currency project expenditure. To this end, the Indian Government is requesting the following deliveries of butteroil:

('000 t)	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>Total</u>
Butteroil	8	13	18	18	13	6		76

4. lastly, the skimmed-milk powder and butteroil to be reconstituted as liquid milk and the butteroil to be sold as such would provide 2 352 million rupees (approximately \$270 million), that is roughly half the total cost of the project.

These counterpart funds made over by the Government to the Indian Dairy Corporation will be allocated by that Corporation - together with the World Bank loan - to the dairy federations in the form of grants (30%) and loans (70%). Repayments to the Indian Dairy Corporation on the loans will go into a fund to provide working capital for projects to be undertaken by the milk producers.

Attention should be drawn to the fact that the above figures are only projections of the objectives to be pursued and not of the actual trend of the situation. Hence, there will very probably be adjustments to the figures during the course of the project.

III. THE COMMISSION'S PROPOSALS

The Commission feels that the project presented by the Indian Government is based on excellent ideas and corresponds to the principles laid down by the Community for its grants of food aid (stimulation of local production, improvement of the nutritional level of the diet of the poorest sections of the population, temporary nature of the food aid and so on). Also, the results of the first phase augur well for the second. There are, however, two essential conditions which must be satisfied before the project can be implemented:

- (a) A decision must be taken by the World Bank to grant the loan requested by the Indian Government;
- (b) The Indian Government must be given some kind of assurance that the quantities of food aid needed for the project would be supplied for a six-year period. The Commission believes that the Community should support the efforts the Indian Government is making and give it some indication on this matter. This would be an innovation compared with the practice followed so far by the Community (since commitments to recipients are usually made on a year-to-year basis), but the procedure would be fully justified in this case; it would increase the impact and effectiveness of the Community's food aid, since it would constitute the liaison between aid and encouragement for the local production of food. In practice, the Commission's official letter giving the terms of delivery would contain a firm commitment for 1978. It would also contain a statement to the effect that the Community, considering the exceptional importance of the scheme being undertaken by the Indian Government, would look favourably upon any further requests for aid, it being understood that the quantities involved in the firm commitment for 1978 and the subsequent quantities will be within the approximate limits set out on the following page; this commitment in principle will remain valid only if the second phase of Operation Flood is pursued with energy and perseverance, and the Community is given all the necessary guarantees that the quantities of milk powder and butteroil and the counterpart funds will be used in accordance with the objectives of the project. The appropriate discussions will be opened in due course with the Indian Government, the Indian Dairy Corporation and the World Bank.

Skimmed-milk powder

The approximate total quantity - for the six-year period - would be some 186 000 t. It could be supplied, without prejudice to the needs of other developing countries and organizations, under annual food aid programmes of the order of the 1976 programme - that is 150 000 t; the Commission has already emphasized that a lower level would create serious difficulties for all the other recipients (countries and organizations). The tables given on page 4 show that the deliveries of the 186 000 t required for the project would vary considerably from one year to the next. Because of this, if the Community's annual commitments corresponded to the quantities to be delivered each year, it would cause serious problems as regards the quantities to be set aside for other developing countries. In order to avoid this difficulty, the Commission proposes that the annual commitment should be set at the annual average of the total quantities of skimmed-milk powder required, that is 31 000 t. The first commitment of this amount, to be delivered port of unloading, would be charged against the 1978 programme; 12 000 t would be delivered in 1978/79 and 19 000 t in 1979/80. The remaining commitments and deliveries would be made in accordance with the timetable in Annex II.

Butteroil

The total quantity needed for the project is 114 000 t, an average of 19 000 t per year. Since the Community's annual programmes have until now amounted to 45 000 t, the Commission feels that the Community commitment proposed for the first year and the amounts to be set for the subsequent years cannot involve such a figure. It proposes, therefore, that the figure be limited to the quantities needed to reconstitute liquid milk and manufacture infant food and to half the quantities needed to help offset the shortfall of oils and fats. This amounts to a total of some 76 000 t, giving an annual average of 12 700 t. The first commitment of this amount, to be delivered port of unloading, would be charged against the 1978 programme; 7 000 t would be delivered in 1978/79 and 5 700 t in 1979/80. The remaining commitments and deliveries would be made in accordance with the timetable in Annex III.

IN CONCLUSION

The Council is requested:

to agree to the commitment to the Indian Government, under the 1978 programme, of 31 000 t of skimmed-milk powder and 12 700 t of butteroil, to be delivered port of unloading, for the second phase of Operation Flood;

to agree that the Indian Government be notified that the Community views favourably the idea of supporting the said project in the subsequent years, it being understood that the quantities of food aid to be supplied under the firm commitment for 1978 and in the subsequent years would total some 186 000 tonnes of skimmed-milk powder and some 76 000 tonnes of butteroil, on condition that the operation continues at a regular pace and in a satisfactory manner;

to adopt the regulations annexed hereto;

to take a decision before the end of this year in order to give the Indian Government time to prepare for the actual launching of the project in July 1978.

FINANCIAL RECORD

1. RELEVANT BUDGET HEADING CODES

1978 BUDGET - Article 921 "Food aid in milk products"

. Item 9211 "1978 skimmed-milk powder programme", against which the Commission proposed an appropriation of 189.30 million EUA (domestic prices) in the preliminary draft budget. In the draft budget drawn up by the Council, there is a token entry against this item, with the remark that "an appropriation will be entered against this item later, once the Council has examined a Commission communication on action to be undertaken in the field by the Community".

. Item 9212 "1978 butter/butteroil programme", against which the Commission proposed an appropriation of 159 million EUA (domestic prices) in the preliminary draft budget. In the draft budget drawn up by the Council, an appropriation of 56.34 million EUA was entered against this item, which sum corresponds to the value at world prices of the quantities proposed by the Commission.

2. DESCRIPTION OF THE PROJECT

Allocation of 31 000 t of skimmed-milk powder and 12 700 t of butteroil to the Government of India.

3. APPROPRIATIONS

Method of calculation

	<u>million u.a.</u>
. <u>Raw material</u>	
. Skimmed-milk powder: 31 000 t x 946.90 u.a./t =	29.35
. Butteroil : 12 700 t x 3008.58 u.a./t ¹ =	<u>38.21</u> 67.56
. <u>Transport</u>	
. Skimmed-milk powder: 31 000 t x 50 u.a./t =	4.96
. Butteroil : 12 700 t x 170 u.a./t =	<u>2.15</u> 7.11
TOTAL	<u>74.67</u>
Or:	<u>83.57 million EUA¹</u>

¹The 1978 draft budget was drawn up in EUA.

TIMETABLE OF COMMITMENTS AND DELIVERIES OF FOOD AID
IN THE FORM OF SKIMMED-MILK POWDER

Delivery years Commitment programmes		1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
		Deliveries ¹					
1978	31 000	12 000	19 000				
1979	31 000		5 000	26 000			
1980	31 000			22 000	9 000		
1981	31 000				31 000		
1982	31 000				14 000	17 000	
1983	31 000					16 000	15 000
Total	186 000	12 000	24 000	48 000	54 000	33 000	15 000

¹Total of the figures contained in the tables on page 4.

TIMETABLE OF COMMITMENTS AND DELIVERIES OF FOOD AID
IN THE FORM OF BUTTEROIL

Commitment programmes	Delivery years	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
	Deliveries ¹						
1978	12 700	7 000	5 700				
1979	12 700		5 800	6 900			
1980	12 700			12 100	600		
1981	12 700				12 700		
1982	12 700				5 700	7 000	
1983	12 700					6 500	6 200
Total	76 200	7 000	11 500	19 000	19 000	13 500	6 200

¹Total of the figures contained in the tables on page 4 and half of the figures given in the table on page 5.

PROPOSAL FOR
COUNCIL REGULATION (EEC)

laying down general rules for the supply of milk
fats to India under the 1978 food aid programme

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,
and in particular Article 43 thereof,

Having regard to Council Regulation (EEC) No 804/68 of 27 June 1968 on the
common organization of the market in milk and milk products¹, as last
amended by Regulation (EEC) No 559/76², and in particular Article 6(6)
thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament,

Whereas India has indicated its requirements in milk fats; whereas these
fats may be supplied in the form of butter or butteroil produced within
the Community and meeting certain quality standards;

Whereas the amounts available at present in the Community enable a quantity
corresponding to 12 700 tonnes of butteroil to be supplied as food aid in
butter and butteroil; whereas the apportionment of supplies between public
and private stocks will vary depending on market trends and seasonal
requirements;

Whereas in view of the situation on the Community market in butter and
other butter fats, as well as the need to make certain emergency deliveries
and ensure regular supplies under the most favourable economic conditions,
provision should be made for these supplies to be made either by taking
butter or other butter fats from stocks held by intervention agencies or
by buying in butter or butteroil on the Community market;

Whereas, in order to enable the aid to be used effectively, arrangements
should be made to finance certain transport costs;

¹OJ No L 148, 28.6.1968, p. 13.

²OJ No L 67, 15.3.1976, p. 9.

Whereas the supplies must be delivered at the cheapest possible price; whereas in order to achieve that aim, provision should be made for a tendering procedure; whereas, however, in the interests of speed it may be desirable in exceptional cases to use private contracts;

Whereas it is desirable that the rules for implementing the measures laid down for buying in butter or butteroil on the market should be adopted in accordance with the procedure laid down in Article 30 of Regulation (EEC) No 804/68, as in the case of the rules to be applied where public stocks are used,

HAS ADOPTED THIS REGULATION:

Article 1

A quantity of butter or butteroil corresponding to 12 700 tonnes of butteroil shall be made available to India under the 1978 food aid programme.

Article 2

1. The butter referred to in Article 1 shall be purchased in accordance with Article 6(1) of Regulation (EEC) No 804/68. The butteroil referred to in Article 1 shall be processed from this butter.

2. If the market situation is such that delivery of the amount provided for in Article 1 cannot be carried out in accordance with paragraph 1, then the supply shall be ensured by using butter or butter fats available on the Community market. This shall be done in such a way as not to disturb the normal development of prices on the market.

Article 3

For the purposes of Article 1, the cost of the butter or butteroil, delivered to the port of unloading, shall be financed by the Community.

Article 4

Invitations to tender shall be issued for delivery of the product, including packing, labelling and forwarding to the port of unloading, save in exceptional cases where private contracts may be negotiated.

Article 5

The sums to be paid to the undertaking selected shall be due only if:

(a) the undertaking satisfies the conditions laid down in the invitation to tender or the private contract,

and

(b) the quality and packaging of the delivered product are found on inspection to comply with the relevant Community provisions.

Provision may be made for part of such sums to be paid in advance.

Article 6

The decision to apply Article 2(2) shall be taken and the resulting procedure for implementing that paragraph and Article 5 shall be adopted in accordance with the procedure laid down in Article 30 of Regulation (EEC) No 804/68.

Article 7

This Regulation shall enter into force on the third day following its publication in the Official Journal of the European Communities.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at

For the Council
The President

PROPOSAL FOR
COUNCIL REGULATION (EEC)

laying down general rules for the supply of
skimmed-milk powder as food aid to India
under the 1978 programme

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,
and in particular Article 43 thereof,

Having regard to Council Regulation (EEC) No 804/68 of 27 June 1968 on
the common organization of the market in milk and milk products¹, as last
amended by Regulation (EEC) No 559/76², and in particular Article 7 (4)
thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament,

Whereas India has indicated its requirements in high-protein milk products;
whereas these high-protein products may be supplied in the form of skimmed-
milk powder produced within the Community and meeting certain quality
standards;

Whereas the supply of skimmed-milk powder must take into account the amounts
of skimmed-milk powder available in the Community and the need not to disrupt
market conditions;

¹OJ No L 148, 28.6.1968, p.13.

²OJ No L 67, 15.3.1976, p.9.

Whereas the amounts available enable 31 000 tonnes of skimmed-milk powder to be supplied under the 1978 programme;

Whereas, if the quantities of skimmed-milk powder in public stocks are insufficient for the delivery of the abovementioned amount, or if they do not have the characteristics necessary for their particular destination where this requires in particular different packaging or the addition of vitamins or other additives, supplies must be ensured by the buying-in of skimmed-milk powder on the Community market;

Whereas in order to enable the aid to be used effectively, arrangements should be made to finance certain transport costs for the goods;

Whereas the supplies must be delivered at the cheapest possible price; whereas, in order to achieve that aim, a tendering procedure must be provided for; whereas, however, it may be desirable in the interests of speed, in exceptional cases, to have recourse to private contracts;

Whereas it is desirable that the rules for the application of the measures laid down for buying in skimmed-milk powder on the market should be adopted in accordance with the procedure laid down in Article 30 of Regulation (EEC) No 804/68, as in the case of the rules to be applied where public stocks are used,

HAS ADOPTED THIS REGULATION:

Article 1

There shall be made available to India as food aid under the 1978 programme 31 000 tonnes of skimmed milk.

Article 2

1. The skimmed-milk powder referred to in Article 1 shall be purchased in accordance with Article 7 (1) of Regulation (EEC) No 804/68.
2. If the amounts of skimmed-milk powder in public stocks are insufficient to supply the quantities provided for in Article 1 or if they do not have the characteristics necessary for their particular destination where this requires, in particular, other forms of packaging or the addition of vitamins or other additives, supplies shall be ensured by the buying-in of skimmed-milk powder on the Community market. Buying-in shall be done in such a way as not to disturb the normal development of prices on the market.

Article 3

For the purposes of Article 1, the cost of the products supplied, delivered to the port of unloading, shall be financed by the Community to the amount corresponding to the quantity provided for in Article 1.

Article 4

Invitations to tender shall be issued for delivery of the products to the port of unloading and for their purchase on the Community market, save in exceptional cases where private contracts are negotiated.

Article 5

The decision to apply Article 2(2) shall be taken and the procedure for implementing that paragraph and Article 4 shall be adopted in accordance with the procedure laid down in Article 30 of Regulation (EEC) No 804/68.

Article 6

This Regulation shall enter into force on the third day following its publication in the Official Journal of the European Communities.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at

For the Council
The President