GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

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International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN CHEESES
COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS AND
COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

Reports of the Thirty-Fifth Session

(19-20 September 1988)

In accordance with the new working methods adopted by the Protocol Committees, certain routine matters were discussed at a joint meeting of the three Committees. These appear in the first report of the Joint Session. Other matters which were specific to each Protocol were discussed at each of the Protocol Committee meetings and thus appear separately in the respective Protocol reports. For practical reasons, however, all these reports have been issued in one document.

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NOTE ON DOCUMENTATION

Documents related to the work of the Committees of the Protocols are being circulated, from 1 January 1989, in a new series: DPC/PTL/-. The new series will replace the DPC/P/-, DPC/F/- and DPC/C/- series which have been discontinued.

89-0019

THE JOINT MEETING OF THE THREE PROTOCOL COMMITTEES

Thirty-Fifth Session

Introduction

1. The three Protocol Committees held a joint session on 19-20 September 1988 to deal with certain routine matters concerning the working of the three Protocols.

Adoption of the agenda

2. The Committees adopted the following agenda:

A. Adoption of report on the thirty-fourth session

B. Information required by the Committee:

(i) Replies to Questionnaires (respectively

Questionnaire 3: Certain Cheeses
Questionnaire 1: Certain Milk Powders and
Questionnaire 2: Milk Fat)

(ii) Summary tables

(iii) Other information

C. Transactions other than normal commercial transactions

D. Sales under derogation

E. Review of the market situation for products covered by the Protocol

F. Review of the level of minimum prices under Article 3:3(b) for products covered by the Protocols

G. Oral report to the Council

H. Dates of the next sessions

Adoption of reports on the thirty-fourth session

3. The reports on the thirty-fourth sessions were adopted with certain amendments by the three Protocol Committees and distributed in one document, with a triple symbol (DPC/P/55, DPC/F/59 and DPC/C/53).

Information required by the Committees

(a) Replies to Questionnaires 1 to 3

4. The Committees reviewed the replies to Questionnaires 1 to 3 and requested participants who had not yet communicated such information in respect of the second quarter of 1988 to do so without further delay. They were also asked to submit information regarding the third quarter of 1988 by 8 December 1988 at the latest.

(b) Summary tables

5. The Committees reviewed the summary tables based on information submitted by participants in Tables A and B of the questionnaires in respect of the first quarter of 1988 and issued respectively in documents DPC/F/W/36/Rev.2, DPC/P/W/34/Rev.2 and DPC/C/W/35/Rev.2. The Committees also took note of the data related to the second quarter of 1988 and issued in document DPC/W/82/Add.1

(c) Other information

6. The Committees took note of the information which the secretariat had compiled on production, trade (including food aid), stocks and consumption of dairy products in the United States. Data related to the second quarter of 1988 and also gave forecasts for the third quarter of 1988.

7. The Committees also took note of the information that no new sales had been reported under the United States Dairy Export Incentive Program adopted in February 1987.

8. Further commenting on the possible effects of the United States drought on the world dairy situation, the secretariat indicated that the increase in milk production in the first half of 1988 was estimated to be around 2.5 per cent, although some sources had put it as high as 3 per cent. For the whole of 1988, milk production was likely to total 65.9 million tons, about 2 per cent more than in 1987, but less than earlier anticipated. There was a further decline in cow numbers, but this was more than out-matched by an increase in yields. Feed prices, especially of concentrates, had gone up considerably, as had been the forage prices in the drought-affected areas. This was likely to have a depressing effect on milk production. However, cows had been put in stables and fed more intensively, as was normally done in winter, leading to higher yields. Due to this reason milk production in July had totalled 1.2 per cent higher than last year and had maintained its upward trend in the following two months. As a result of increased milk production, the output of dairy products, and in particular of butter and skimmed milk powder, had recovered to the 1986 levels. The production of whole milk powder had remained unchanged, but cheese production had continued to expand at a rate of 3 per cent per annum. The wholesale prices of butter, skimmed milk powder and cheese had moved upwards, which could have an effect on consumption. United States butter stocks had increased and could amount to as much as 100,000 tons by the close of 1988, compared to 67,000 tons at the beginning of the year.

9. In response to an EC question, the representative of the secretariat informed that cheese prices in the United States had remained competitive because increased production was equally matched with increased domestic demand. There was no likelihood that more cheese would be imported or more than before would be exported. The Committees took note of New Zealand's remark that though the effect of drought on the United States dairy sector was only indirect mainly through its influence on feed grain prices, the overall milk production was 1 per cent higher than in 1987. There was a strong upward pressure on milk prices, which was to a large extent offsetting the higher feed prices. It was also noteworthy that developments in the United States domestic consumption and government disposal programmes were just as important as developments in the level of dairy production.

Review of the market situation for products covered by the Protocols

10. Opening the discussion under this heading, the representative of Australia said that milk production in his country in 1987/88 at 6,116 million litres was 1 per cent down on the 1986/87 level mainly due to dry autumn conditions in the main dairy producing States of Tasmania and Victoria. Cow numbers (in milk and dry) in 1988 were down from 1.73 million in 1987 to 1.[illegible] million in 1988. As a result of an increase in the fluid milk consumption and an overall reduction in production, less milk was available for manufacturing. Consequently, production of all major manufactured dairy products (anhydrous milk fat/butter, cheese skimmed milk powder/buttermilk powder, whole milk powder) had fallen and in particular butter, which fell by 9.3 per cent on the 1986/87 level and skimmed milk powder/buttermilk powder which fell by 6.6 per cent over the same period. The new dairy marketing and assistance arrangements were working well and industry was becoming more responsive to market forces. Recent substantial increase in world market prices in conjunction with the maximum levy rate under the funding mechanism meant that the relative percentage used to determine the rate of market support payment had fallen from 30 per cent in 1987/88 to approximately 21 per cent for 1988/89. As part of a major national economic policy statement in May, the government had announced that it intends to bring forward to 1 July 1989, the phasing out of the product levy on domestic sales of butter. As a result of this, the rate of supplementary market support, which was funded by the product levy, would fall from 10.9 per cent in 1987/88 to 1.4 per cent in 1988/89 and would be completely phased out by 1 July 1989.

11. Referring to the situation in individual dairy products, he indicated that production of cheese in 1987/88 (July/June) at 169.9 thousand tons was 4 per cent down on the level of 176.9 thousand tons in the corresponding period of 1986/87. Output of Cheddar was 116.3 thousand tons as compared to 123.3 thousand tons in 1986/87 and non-Cheddar 53.6 thousand tons as was the case in the previous year. It was forecast to increase by 8.9 per cent in 1988/89 to a level of 185 thousand tons; Cheddar to a level of 125 thousand tons while non-Cheddar to 60 thousand tons. Exports in 1987/88 were 68.2 thousand tons, of which Cheddar exports were 67.1 thousand tons and non-Cheddar 1.1 thousand tons. In 1988/89 these were forecast at 65 thousand tons, with closing stocks of 66 thousand tons.

Domestic consumption of Australian cheese in 1987/88 was 136 thousand tons, and was forecast to increase by 1 per cent in 1988/89 to around 137.5 thousand tons, of which Cheddar would be 78.5 thousand tons and non-Cheddar 59 thousand tons. Imports in 1987/88 increased marginally to 19.3 thousand tons from 18.8 thousand tons in 1986/87. As regards the world situation, supplies were expected to remain tight during 1988/89 while demand would continue to be strong. The world cheese prices had risen substantially above the GATT minimum to between US$1,800 and US$2,000 per ton.

12. Australian production of skimmed milk powder/buttermilk powder in 1987/88 was 6.6 per cent down to 127.8 thousand tons from 136.8 thousand tons in 1986/87. Output of skimmed milk powder decreased by 6.5 per cent from 128.4 thousand tons to 120 thousand tons, while that of buttermilk powder dropped by 7.6 per cent from 8.4 thousand tons to 7.8 thousand tons during this period. However, buttermilk powder production was expected to increase slightly in 1988/89, while that of skimmed milk powder was likely to remain fairly stable. Exports in 1987/88 were about 74.6 thousand tons, of which skimmed milk powder was 70.2 thousand tons and buttermilk powder 4.4 thousand tons. In 1988/89 these were forecast to increase to 81.8 thousand tons; skimmed milk powder 76 thousand tons and buttermilk powder 5.8 thousand tons. Domestic sales of skimmed milk powder/buttermilk powder increased by 7.3 per cent from 45.5 thousand tons in 1986/87 to 48.8 thousand tons in 1987/88. As far as the world situation was concerned, the international market for skimmed milk powder remained strong with current prices in the range of US$1,650-US$1,900 per ton f.o.b. The GATT minimum price had been increased in March from US$825 to US$900 per ton f.o.b. The Australian skimmed milk production for the remainder of the 1987/88 season was fully committed and supplies were expected to remain tight throughout 1988, especially after the entry of Japan in to the market.

13. Production of whole milk powder in Australia in 1987/88, was 63.7 thousand tons, slightly below the level of 65.3 thousand tons in 1986/87. In 1988/89, it was forecast to increase by around 9.8 per cent to 70 thousand tons. Exports were forecast at 57 thousand tons as against 44.2 thousand tons in 1987/88. Domestic sales were expected to be 14.2 thousand tons in 1987/88 and 14 thousand tons in 1988/89. Recent quotes for whole milk powder in the international market had been in the range of US$1,700-US$2,000 per ton f.o.b., as stocks fell and the market continued to strengthen. The GATT minimum price was last increased in March from US$950 to US$1,000 per ton f.o.b. Reduced export availability in Australia and New Zealand together with falling EC stocks, would continue to maintain world stocks at a low level in 1987/88 and exert upward pressure on prices.

14. Production of butter/butter oil (commercial butter equivalent) in 1987/88 was 94.2 thousand tons, showing a reduction of 9.3 per cent on the corresponding period in 1986/87. In 1988/89, production was expected to increase to 95 thousand tons, marginally higher than the 1987/88 level. Total domestic consumption of butter/anhydrous milk fat was provisionally estimated to have declined marginally in 1987/88 to 52 thousand tons compared with 57 thousand tons in 1986/87. Domestic consumption of butter

in 1988/89 was expected to reach 49.5 thousand tons, slightly more than in 1987/88. Exports for 1988/89 were forecast to be around 46 thousand tons, with closing stocks of 17.5 thousand tons as against actual exports of 38.1 thousand tons in 1987/88 and closing stocks of 21.2 thousand tons. As regards the world situation, the international market was steadily strengthening with prices of both butter and anhydrous milk fat at or above their respective IDA minimum prices. Recent large EC butter sales to the USSR, an extensive domestic disposal scheme and the effectiveness of the EC milk production quotas, had combined to significantly reduce the EC stocks. As a result the downward pressure on butter prices had largely been relieved and the world price currently was in the range of US$1,200-US$1,400 per ton f.o.b., and in certain markets reportedly as high as US$1,600 per ton.

15. In reply to an EC question, it was confirmed that butter was sold to Japan at US$1,600 per ton f.o.b., although numerous smaller sales had been made to other destinations at prices between US$1,200-US$1,400 per ton f.o.b. As regards export prices of anhydrous milk fat, the range recorded was between US$1,350 and US$1,400 per ton f.o.b.

16. The representative of Switzerland told the Committees that milk deliveries by the end of August 1988 (two months before the end of the normal dairy year) were 2.5 million tons, the same level as last year. Cheese production in the second quarter of 1988 at 34,000 tons was somewhat below the level in the same period of last year. Imports at 5,700 tons were slightly below the last year's level of 5,900 tons. Exports were unchanged, while consumption was stable. Stocks at 22,000 tons were normal, but those of Emmenthal appeared to be rather high.

17. As regards the production of whole milk powder in the second quarter of 1988, the level at 7,100 tons was slightly below the level of 7,300 in the corresponding period of the previous year. Imports were 400 tons higher than over the level of 1,000 tons in the same quarter of 1987. Exports were insignificant, while stocks stood at 1,800 tons. The production of skimmed milk powder in the second quarter totalling 15,000 tons was more or less the same as last year. Exports were negligible at 400 tons. Stocks stood at a very low level of 2,500 tons only.

18. Butter output at the end of June 1988, totalled 19,647 tons, slightly more than in the same period of 1987. Imports added up to 3,942 tons in the second quarter of 1988. There were no exports of butter and consumption had slightly receded by 1 per cent. Stocks were relatively high at a level of 7,000 tons.

19. Answering a question by the EC whether the problem of "listeria" had been satisfactorily resolved, he indicated that after a very difficult period the situation had been normalized and domestic production of Vacherin Mont d'Or, with the help of essential sanitary measures, had more or less recovered. Imports had also been resumed, though the domestic consumption had somewhat slowed down in the wake of "listeria". As regards the other question whether Switzerland experienced a difficulty in

fulfilling United States cheese quotas, he replied in the affirmative and considered it a difficult market from that point of view. In respect of the last question at what prices butter was traditionally imported by Switzerland, he made it clear that his country imported only high-quality butter, which was white and without odour and was therefore relatively more expensive. But no particular difficulty was experienced in the payment of such higher prices, which had increased over last year's level. These prices were, however, still lower than domestic prices.

20. The delegate of Sweden observed that milk production was expected to decline somewhat in 1988, due mainly to the voluntary two-price system which was introduced in 1985. As regards cheeses, exports somewhat dropped in the second quarter of 1988, but production, consumption and imports increased during this period. As regards skimmed milk powder, both production and exports decreased while domestic consumption increased in the second quarter. Average export price in September 1988 was US$1,350 per ton f.o.b. In respect of butter, he noted a 13 per cent drop in consumption and more than a 50 per cent fall in exports, but some increase in domestic production during the second quarter of 1988 in relation to the same period last year. Average export price for butter in September 1988 was reckoned at US$1,200 per ton f.o.b.

21. The Norwegian delegate said that total milk deliveries in the first six months of 1988 were 2.3 per cent down on the level of the corresponding period in 1987. The decline was somewhat accelerated in the month of August when they fell to almost 3 per cent compared to the previous year. For 1988, as a whole, milk deliveries were likely to total 2.3 per cent lower than the total in 1987, mainly due to a tightening of the quota system. Both production and consumption of cheese fell in the second quarter of 1988 relative to their levels in 1987. Stocks of cheese were also 8 per cent down on last year's levels. As regards milk powders, the situation was that normally it was returned to producers for animal feed, but during the first two quarters of 1988, small quantities were even exported due to improved market conditions. Average export prices of skimmed milk powder were in the range of US$1,130 and US$1,200 per ton f.o.b. The production of butter was 7 per cent down in the second quarter of 1987, but stocks were 20 per cent higher in July compared to their level in last July. As a result of the campaign to reduce human intake of fat, domestic consumption of butter was lower and exports were 9 per cent more than in the second quarter of 1987. The average export price of butter in February 1988 was US$1,000 per ton f.o.b.

22. The representative of Finland said that the decline in dairy production continued well into summer. Under the new dairy cessation scheme, 3,300 agreements were signed to cease production representing 130 million litres of annual output. Apparently, the scheme attracted more volunteers than the government credit permitted. The number of dairy farms was reduced from 62,000 in July 1986 to 52,000 in July 1988 or by 17 per cent. This, together with an abnormally hot and dry weather during May to July, led to a revision of forecasts for 1988 to 2,560 million litres, which showed a decline of 5 per cent over 1987. Under normal conditions, however, the decline was expected to level off. With regard to various

dairy products, it may be noted that cheese production (excluding curd) in 1988 was expected to be 84,000 tons compared to 81,300 tons in 1987. Production of skimmed milk powder at 28,000 tons, compared to 38,600 tons in 1987, would be substantially lower. Similarly, the output of whole milk powder in 1988 would be reduced from 25,200 tons in 1987 to 21,000 tons in 1988. Output of butter was also expected to be lower, from 67,900 tons in 1987 to 64,000 tons in 1988. In terms of export availabilities, reduced production would mean lower exports in 1988. Cheese exports were anticipated to fall from 36,000 tons n 1987 to 31,000 tons in 1988, skimmed milk powder from 5,300 tons to 4,000 tons, whole milk powder from 26,700 tons to 20,000 tons and butter from 20,800 tons to 17,000 tons. Average export prices during the second quarter of 1988 for cheese were US$3,340 per ton f.o.b. (hard Emmenthal type cheeses); for skimmed milk powder US$1,051 per ton f.o.b.; for whole milk powder US$1,260 per ton f.o.b., for butter US$1,073 per ton f.o.b. and more recently US$1,200 and above up to US$1,300 per ton f.o.b.

23. The South African delegate told the Committees that although milk production was still lower than in the same period of the previous year the margin between production and consumption was narrowing and production of milk in September was expected to be more than the consumption. This was a normal situation because August/September were the turning months as far as milk production was concerned. On the whole it was expected that supply and demand would be more or less in equilibrium.

24. As regards skimmed milk powder, the level of production during the second quarter was higher than anticipated by the Dairy Board. A lower production of 2,168 tons was expected during July-September 1988. The consumption was also lower than expected for the second quarter, but an increase to 3,819 tons was anticipated for the third quarter of 1988. No exports or imports were envisaged in the third quarter and stocks were expected to reach a level of 2,660 tons by the end of September 1988.

25. The production of whole milk powder in the second quarter of 1988 totalled 2,096 tons, while consumption was lower than anticipated by the Dairy Board. For the third quarter, consumption of 2,551 tons was anticipated. No exports were anticipated during the current quarter and stocks at the end of September 1988 were expected to reach a level of 2,575 tons.

26. Butter production during the third quarter was expected to total 2,207 tons as compared with 4,607 tons in the second quarter. Domestic consumption would be 3,512 tons, imports 828 tons and exports negligible, leaving stocks at a level of 1,262 tons at the end of September.

27. Production of cheese in the third quarter was expected to be 10,264 tons, while consumption would be around 8,460 tons. No imports or exports were envisaged, but stocks were expected to increase to 9,489 tons at the end of September 1988.

28. The representative of Poland indicated that the number of cows had continuously declined since 1975 and had reached its lowest level in June 1988, mainly as a result of increasing concentration on more profitable grain and meat production. Milk production was expected to amount to 15 billion litres, the same level as in 1987. However, due to reduced milk consumption on the farms, milk deliveries to dairies totalled 5,189 million litres in the first half of 1988, i.e. 3 per cent more than in the same period of 1987; and for 1988 were expected to be around 10.9 billion litres, which would be 2.2 per cent more than in 1987 but 5.2 per cent less than in the peak year 1984.

29. Butter production during the first half of 1988 totalled 116,800 tons, which was 1 per cent down on the level of 1987. Imports at 24,300 tons were 14 per cent down, and domesti onsumption was stable at a high level of 139,000 tons. The forecast for 1988 was that production would decrease by 1 per cent to a level of 261,000 tons and imports would fall by 10 per cent to a level of 30,000 tons.

30. Production of skimmed milk powder during the first half of 1988 jumped by 11 per cent as compared to the same period of 1987 to a level of 74,000 tons. Exports dropped by 3 per cent to 18,035 tons as domestic consumption increased by almost 36 per cent for animal feed purposes. The forecast for 1988 was more pessimistic as production would fall by 2.2 per cent to 145,000 tons and exports would drop by 13 per cent to about 34,000 tons as compared to the levels in 1987.

31. Production, imports and exports of cheese were respectively 2.5 per cent, 8 per cent and 5.5 per cent higher in the first half of 1988 as compared to the same period in 1987. The position appeared to be stable for the rest of the year also.

32. Answering a question by the EC, he informed that while average import price for butter in the month of September was US$1,250 per ton, average export price of skimmed milk powder in the same month was reckoned at US$1,280 per ton f.o.b.

33. The representative of New Zealand printed out that climatic conditions had a major impact on milk production levels. Variations up to 10 per cent from one season to the next were not in any way exceptional and, therefore, particular care was needed in comparing individual monthly production levels with those recorded in previous years. Production could change very sharply on a monthly basis, especially during the summer and autumn months when there was less certainty of regular rainfall to maintain pasture conditions. In the 1985/86 season, especially favourable weather conditions boosted production to a record level of 349.4 million kgs. of milk fat processed. In contrast, in the 1986/87 season, dry conditions through the summer resulted in production declining by 14 per cent to 301 million kgs. milk fat. In the 1987/88 season, nearer to average production conditions were experienced and production returned to a more "normal" level of 334 million kgs. milk fat.

34. In regard to production and product mix, he said that milk production in the 1987/88 season recovered from the drought with 11 per cent increase in the volume of milk fat processed. These were increases in production in all product categories. Cheese, whole milk powder and infant food production recovered with greater emphasis now being given to reduce the proportion of milk going into butter manufacture. In the 1988/89 season, the advance basic value of milk was set at $3.40/kg. milk fat in May, which compared with $3.60 in 1987/88, $3.20 in 1986/87 and $4.00/kg. in 1985/86. Production of major dairy products in 1987/88 was higher, except that of infant food which fell by 6.5 per cent over the previous season. Butter output (including anhydrous milk fat) at 279,400 tons was 12.5 per cent higher than in 1986/87; cheese at 128,600 tons was 13.6 per cent; skimmed milk powder at 171,100 tons was 14.9 per cent; buttermilk powder at 26,800 tons was 14 per cent; whole milk powder at 171,000 tons was 9.5 per cent and finally casein at 65,400 tons was 5.8 per cent more than in 1986/87.

35. Referring to the world situation, he said that the process of adjustment linked with a sharp cutback in milk supplies and run-down of surplus stocks had contributed to a firming up of export prices. Whereas until recently market prices of milk powders, cheese and casein had shown signs of firming up, butter and the butter oil market had also turned around and the outlook was for a more balanced market and improved export prices. The current situation was substantially different from that of last year, mainly as a result of reduced supply pressures on the market. The elimination of surplus stocks in the Community coincided with the disappearance of United States stocks and tightening of supplies from Australia and New Zealand. Certain other factors also contributed to this situation, including reduced export subsidies, changes in exchange rates and sustained import demand for different dairy products. As a result, minimum prices of butter and butter oil had crept up from 1985-87 period depressed levels respectively from US$1,000 to US$1,100/ton and US$1,200 to US$1,325/ton in March 1988. These prices were now beginning to show further strength with recent New Zealand tender in the Japanese market at US$1,600 per ton f.o.b. With effect from September, the New Zealand Dairy Board had moved butter prices for all business to US$1,600 per ton. His country obviously was pleased with the evolution of the market, although the going price was still below the actual market price of US$2,000 per ton five years ago. In the case of butter oil, with continuing EC refunds for exports, the butter oil prices were reduced from US$1,380 per ton to around US$1,235 per ton in August 1988. In his opinion, the market now warranted a range of US$1,350-US$1,450 per ton f.o.b. The market for skimmed milk powder remained tight with export prices strong. There were no uncommitted surplus stocks available from Europe or from the United States or Canada and supplies from Australia and New Zealand were already committed. Prices were now generally in the range of US$1,800 and US$1,900 per ton f.o.b., with substantial premiums above these levels being achieved in certain markets such as Japan. Further price increases could therefore be achieved. The situation with regard to whole milk powder was that prices had firmed in line with prices of skimmed milk powder and were now generally in the range of US$1,900 and US$2,000 per ton f.o.b. The cheese market had also improved and prices had firmed from very depressed levels.

Prices of Cheddar had now generally risen to levels of US$2,000 and US$2,200 per ton f.o.b., although prices of hard varieties had moved up between US$1,700 and US$2,000 per ton f.o.b.

36. In reply to the EC question at what prices butter had been sold to markets other than Japan, he made it clear that only a limited sale of around 12,000 tons had recently been made to Japan at a price of US$1,600 per ton f.o.b., which the New Zealand Dairy Board had considered as a bench mark for all future sales. Also, in any case, his country did not have any more surplus stocks to sell in the world market. In the case of butter oil, the prices were stalled because of the discretionary substantial EC subsidies. Once these subsidies were withdrawn, the price was expected to move above that of butter.

37. The delegate of Japan, noted that domestic milk production in the second quarter of 1988 was 1.8 per cent above the level of the same period of 1987, due to increased demand for drinking milk.

38. Output of skimmed milk powder during the second quarter was more or less the same as in the same period last year. Imports were 11 per cent higher during the second quarter over the same period last year because LIPC had decided to import 25,000 tons of skimmed milk powder. The average import price in recent months had been in the vicinity of US$1,073 for animal feed purposes and US$1,765 per ton c.i.f. for human consumption purposes.

39. Butter production in the second quarter of 1988 was 5.1 per cent below the level for the corresponding period of 1987. Imports were 10 per cent higher due to the decision of the LIPC to import 21,000 tons of butter this year. Average import price of butter in recent months was US$1,706 per ton c.i.f.

40. Cheese output in the second quarter was 10 per cent higher compared to the level in the same period of 1987. Imports of natural cheese during this period were, however, 21 per cent higher. Average import price of natural cheese in recent months had been US$2,132 per ton c.i.f.

41. In reply to the EC question, he confirmed that butter imports took place under a quota regime. The global quota for fiscal year 1988 was set at 21,533 tons, of which 21,000 tons were to be imported by LIPC. No data was, however, available on the actual volume of imports so far since imports started in July this year.

42. The spokesman of the Community commended the efforts made by member countries to liquidate huge dairy stocks and to restore normalcy in the dairy sector. The EC butter stocks at this stage had trickled down to a level of 245,000 tons, of which only 150,000 tons represented available stocks for sale, just about the same level as in the United States. There were, however, no stocks of skimmed milk powder whatsoever. It had all disappeared except for very small quantities still available in Spain and Greece. The forecast for 1988 was that the size of the dairy herd would be reduced by 4.5 per cent, while milk deliveries would be curtailed by 3 per cent. Butter production in 1988 would decline by 9.5 per cent and powders

by 10 per cent, while there would be a slight increase in the output of cheese, condensed milk and other semi-industrial products. The liquidation of stocks by the EC had a tremendous psychological impact on the world market and prices of most dairy products had firmed up in the wake of reduced supplies. The EC could have unloaded its huge stocks onto the world market and destabilized it completely, instead it protected it by a careful and judicious policy of destocking and other expensive internal disposal measures. Average export prices for skimmed milk powder recorded in the case of the EC ranged between US$1,700-US$1,800 per ton; whole milk powder between US$1,600-US$1,800; cheese US$1,850-US$2,400 per ton; butter US$1,250 per ton and butter oil US$1,400-US$1,550 per ton, f.o.b.

43. The delegate of Hungary said that the decline in dairy cow numbers that began in 1980 continued well into 1988. At the end of 1987 the dairy cow number stood at 673 thousand head which by the end of June 1988 had come down to an all time low figure of 576,000 head. The main reason for this decline was the low profitability in dairy farming. Milk production in 1987 totalled 2.7 million litres; it dropped in the first six months of 1988 and was therefore expected to be lower in 1988 than last year.

44. Cheese production in the first half of 1988 was about the same as in 1987, i.e. 28,000 tons. With the introduction of the Value Added Tax System in January 1988 and a reduction in consumption subsidies, there was an increase in all food prices, including those of cheeses. Domestic consumption, therefore, fell by 7 per cent. Exports increased to 3,000 tons from a level of 1,800 tons in the corresponding period of 1987, mainly to Kuwait and other Arab markets and to some European countries.

45. The production of skimmed milk powder increased to 12,300 tons in the first half of 1988, largely to meet increasing domestic demand for animal feed. Small quantities still had to be imported from Austria and Switzerland. There was no significant change in the production and consumption of whole milk powder. In the first half of 1988, 1,700 tons were produced to meet total domestic demand. The average export price of skimmed milk powder in the first quarter was reckoned at US$1,000 per ton, while in the second quarter it was around US$1,200 per ton f.o.b.

46. Output of butter in 1988 at 17,600 tons was about 10 per cent more than in 1987. It still fell short of domestic requirements. About 300 tons of butter had to be imported in the first quarter from Austria and Finland to meet domestic demand.

47. The representative of Uruguay told the Committees that milk production in his country decreased in the second quarter of 1988 by about 8 per cent as compared to the level during the same period last year.

48. As a result, cheese production fell by about 19 per cent during this period and exports suffered a decline of 35 per cent and consumption went down by about 11 per cent. Stocks of cheese at the end of June 1988 had increased by some 6 per cent to a level of 3,200 tons as compared to their level at the end of April 1988.

49. Production, exports and domestic consumption of skimmed milk powder increased in the second quarter of 1988. The average export price during this period was US$1,260 per ton f.o.b. In the case of whole milk powder, however, both production and exports decreased compared to their levels in the second quarter of 1987.

50. Butter production decreased by some 11 per cent while exports fell by almost 21 per cent in the second quarter of 1988, with stocks amounting to 5,500 tons at the end of June 1988. The average export price for butter during this period was reckoned at US$1,348 per ton f.o.b.

51. The observer from Canada recalled what he had said earlier at the June meeting that the drought did not have any significant effect on milk production since much of the milk was produced in areas other than those affected by drought conditions. In fact, milk production in 1988 was expected to increase by about 2 per cent in spite of a continuing decline in cow numbers, from 1.45 million head to 1.44 million head.

52. Cheese production in the first half of 1988 had been quite steady at a level of about 60,000 tons per quarter. Imports also had been stable at a rate of 18-19 thousand metric tons on an annual basis, but exports had been down. Domestic consumption was up by 5 per cent in the first half of 1988, which was consistent with the medium-term outlook of an annual increase of 4-5 per cent until 1992. Stocks were steady at about 47,000 tons.

53. Output of skimmed milk powder in the first half of 1988 was up by about 8 per cent or by 5,000 tons. Imports were slightly down and exports were up slightly. Domestic consumption in the first half of 1988 was 11 per cent down or by 3,500 tons; and stocks at about 22,000 tons were down, but well within the normal range of mid-year which ran between 15 to 20 per cent of annual production.

54. Butter production was slightly up on the first half of 1988 by about 6,000 tons. Imports and exports were negligible, and consumption was abnormally down by 5 per cent in the first half of 1988. Stocks at the end of June 1988 at 19,000 tons were more or less the same as in the corresponding period of 1987.

55. In answer to New Zealand's question how much cheese was exported to quota markets and non-quota markets, he drew attention to his country's reply to Questionnaires 1-3 where main destinations were shown as the United Kingdom, the United States and Japan.

56. Bringing up-to-date the situation in the USSR, the observer of the Economic Commission for Europe said that the number of dairy herds on 1 August 1988, in State and collective farms was 28.8 million head, representing a decline of about 0.7 per cent over the number in August last year. Milk production during the period January-July 1988 increased by 4 per cent and the rising trend was expected to continue during the remainder of the year. Butter production during the same period increased by about 6 per cent and a similar increase could be forecast for the whole of 1988. The USSR butter imports in 1987 increased by 107 per cent

reaching a total of 403,000 tons, 77 per cent of which came from the EC. Exports totalling 20,300 tons showed an increase by one-quarter. Cheese output during the first seven months of 1988 went up by 4 per cent. Imports in 1987 totalled 13,000 tons and were 22 per cent lower compared to the level in 1986, while exports totalling 6,000 tons were 6 per cent lower than in 1986. The production of milk powders during the January-July 1988 period decreased by 3 per cent. Imports in 1987 totalled 74,000 tons, representing a decline of 12 per cent over the previous year.

57. Referring to OECD's mid-term forecasts for all the member countries, the observer of the OECD indicated that dairy cow numbers would continue to decline, by 10 per cent or by 4 million head between now and 1995. Milk yields, on the other hand, would continue to increase by 2 per cent per annum. Consequently, the present decline in total milk production in OECD countries should stop in 1989 and from 1989 onwards should increase by some 0.5 per cent per year. In 1993, however, production would still be lower than the record level reached in 1986. Consumption (measured in milk fat equivalent) should increase slightly but regularly in almost all member countries. The difference between production and consumption (measured in milk fat equivalent) which had declined substantially between 1986 and 1988, should increase again slightly until 1991 when it would begin to decline again. In 1992-93, this difference would be the same as the difference existing now.

Review of the level of minimum prices under Article 3:3(b)

58. The Committees reviewed the level of the minimum prices of products covered by the respective Protocols on the basis of the criteria established by the Arrangement.

59. In pursuance of Article 3:3 of each of the Protocols, the Committees decided that the levels of the minimum prices specified in that provision would be raised (f.o.b. per metric ton) to US$1,500 for anhydrous milk fat, US$1,250 for butter, US$1,350 for certain cheeses, US$1,150 for whole milk powder, US$1,050 for skimmed milk powder and US$1,050 for buttermilk powder. The schedules of price differentials according to milk fat content were consequently modified. It was agreed that the decisions would take effect at noon on 21 September 1988, Geneva time.

60. The Committees agreed that the decisions would be duly recorded in the respective reports and would be the subject of a Procès-Verbal signed by the Director-General of the CONTRACTING PARTIES to the General Agreement, certifying the entry into force of the new minimum prices and the new schedules of price differentials.

61. Concluding the discussion, the Chairman observed that the increase in minimum prices was agreed with unanimity in view of the improved market conditions. It appeared that some took minimum prices as a safety net, while others viewed them as an instrument to strengthen depressed world market prices. In his view, the role of minimum prices in boosting the market was confirmed in the case of milk fat, while the safety net role appeared to be prominent when fixing the new minimum prices for powders and

cheeses. A reasonable compromise had been achieved mainly as a result of close co-operation and understanding among all the members.

Adoption of reports to the Council

62. The three Committees agreed that an oral report giving an account of discussions at the present session would be submitted to the Council. This report would be later incorporated in document DPC/31.

Dates of the next sessions

63. The next sessions of the Committees will be held consecutively on 13-14 December 1988, subject to confirmation by the secretariat. The session of the Committee of the Protocol Regarding Milk Fat will be followed by the Committee of the Protocol Regarding Certain Cheeses and then the Committee of the Protocol Regarding Certain Milk Powders.

64. The Committees also took note of the tentative time schedule for regular meetings up to the end of 1989 which would be incorporated in document DPC/31. It was understood that any special session would be in addition to that schedule and that all dates would remain subject to confirmation by the secretariat.

REPORT OF THE MEETING OF THE COMMITTEE OF THE PROTOCOL REGARDING CERTAIN CHEESES

Thirty-Fifth Session

(19-20 September 1988)

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

1. All these agenda items were discussed at a joint session of the three Protocol Committees and therefore appear in that report.

Sales under derogations

2. The Committee took note of the information provided in its reply to Questionnaire 3 that Australia sold 375 tons of low-quality cheese in the second quarter of 1988 at a price of US$550/ton to certain non-traditional markets, including the East European countries, under Article 7:2 of the Protocol. Details of sales for the fourth quarter of 1987 and the first two quarters of 1988 had been issued as document DPC/F/W/34/Add.1. The Committee also took note of the Australian statement that sales in relation to the notification DPC/F/W/34 had now been completed.

3. The Committee also took note of the information on a sale of 100 tons of low-quality cheese in accordance with Article 7:2 of the Protocol by New Zealand in the second quarter of 1988. This was issued in document DPC/W/26/Add.12/Rev.1.

4. Recalling the notification procedures set out in Article 7:2 of the Protocol, the representative of the EC asked Australia and New Zealand to notify in advance their intended sales of cheese as required under this derogation.

5. The representative of Australia reiterated that his country would continue, as it had done in the past, to notify the Committee in accordance with Article 7:2 of the Protocol.

6. The Committee took note of the register of sales issued in document DPC/C/W/27/Rev.8.

REPORT OF THE MEETING OF THE COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS

Thirty-Fifth Session

(19-20 September 1988)

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

1. All these agenda items were dealt with at a joint session of the three Protocol Committees and therefore appear in that report.

Sales under derogations

2. The Committee noted that no sales of milk powder under derogations had been reported to the secretariat since the issue of DPC/P/W/30, dated 4 October 1985.

REPORT OF THE MEETING OF THE COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

Thirty-Fifth Session

(19-20 September 1988)

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

1. All these agenda items were discussed at a joint session of the three Protocol Committees and therefore appear in that report.

Transactions other than normal commercial transactions

2. The Committee noted that no new information had been received by the secretariat under this heading.

Sales under derogations

3. The Committee took note of the EC statement that nothing had so far been exported to Bangladesh in pursuance of the Decision of the Committee on 22 March 1988 (DPC/F/55), under which some 50,000 tons of old butter were to be transformed into butter oil and exported to Bangladesh. This was due to certain technical and administrative difficulties encountered in this particular deal.

4. With regard to EC sales of old butter to the USSR in accordance with the Committee's Decision of 12 July 1988 (DPC/F/58), the representative of the EC informed that tenders for a sale of 110,000 tons of old butter at a price of ECU 21.40/100 kgs. had been accepted. Of this total, 34,000 tons had been taken out of intervention stocks on 31 August 1988 and 16,000 tons on 15 September. The remaining 60,000 tons would be taken out of intervention stocks, and exported, by the end of this year.