

GENERAL AGREEMENT ON

RESTRICTED

DPC/PTL/21

11 December 1991

TARIFFS AND TRADE

Special Distribution

International Dairy Arrangement

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

Report of the Forty-Seventh Session

16-17 September 1991

Introduction

1. The three Protocol Committees held a joint session on 16-17 September 1991, to discuss matters relating to the operation of the three Protocols.

Adoption of the agenda

2. The following agenda was adopted for the joint session:
- A. Adoption of report on the forty-sixth session
 - B. Information required by the Committees:
 - (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 Protocols
 - F. Review of the level of minimum prices under Article 3:3(b) for products covered by the Protocols
 - G. Relationship between the minimum export prices fixed for pilot products

H. Oral report to the Council

I. Date of the next meetings

Adoption of report on the forty-sixth session

3. The report of the forty-sixth session was adopted and distributed in document DPC/PTL/20.

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 submitted such information in respect of the second quarter of 1991 to do so without further delay. They were also requested to provide all the relevant information concerning the third quarter of 1991 by 6 December 1991, at the latest.

(b) Summary tables

5. The Committees took note of the summary tables based on information provided by participants in Tables A and B of the questionnaire in respect of milk fat, cheeses and skimmed milk powder and whole milk powder and issued respectively in documents DPC/PTL/W/57, DPC/PTL/W/58 and DPC/PTL/W/59. The Committees were informed that these figures would be further updated as soon as more recent information was available.

(c) Other information

6. The Committees took note of the information which the secretariat had compiled on production, trade, stocks and consumption of dairy products in the United States, providing data related to the second quarter of 1991 and also some forecasts for the third quarter of 1991 and the whole of 1991.

Transactions other than normal commercial transactions

7. The Committees took note of a communication received by South Africa regarding food-aid operations relating to dairy products (DPC/W/107).

Sales under derogation

8. The Committee of the Protocol Regarding Certain Cheeses took note of additional information furnished by Australia regarding its exports of low-quality cheese to different countries in Western Europe. A total of 1,000 tons was expected to be sold under Article 7:2 of this Protocol (DPC/PTL/W/25). The Committee noted that details of these disposals would soon be notified as required by the Protocol.

9. The representative of New Zealand informed the Committee that it would notify shortly sales of 1,098 tons of cheese under the terms provided for in Article 7:2 of the Protocol, made during the first six months of 1991.

The representative of the EC expressed continued concern with regard to the use of this derogation by New Zealand and also with the observance of the notification obligations by said participant. He recalled that Article 7:2 of the Protocol provided that participants exporting such cheese shall notify the GATT secretariat in advance of their intention to do so. The interpretative statement of New Zealand on sales under Article 7:2 appended to the Arrangement did not relieve this participant of its notification obligations. Moreover, the quantity of 1,098 tons sold by New Zealand in the first six months of 1991 was not a negligible quantity and was higher than the annual quantity of 1,000 tons indicated in the interpretative statement.

10. The Committee of the Protocol Regarding Certain Milk Powders took note of the notifications notified by Poland (DPC/PTL/W/55, 56 and 60) and South Africa (DPC/PTL/W/54 and 61) regarding intended sales of skimmed milk powder for purposes of animal feed at below the minimum export price under Article 3:5 of the Protocol. These communications involved sales of 5,304 tons of skimmed milk powder by Poland to Japan and 4,540 tons of skimmed milk powder by South Africa to Japan. The Committee took note of the summary table regarding sales made in accordance with Article 3:5 of the Protocol (DPC/PTL/W/40/Rev.2). This document would be further revised in order to take account of the more recent sales notified by Poland and South Africa.

11. Referring to the Decision of 12 December 1990 of the Committee of the Protocol Regarding Milk Fat (DPC/PTL/16), the Chairman recalled that four notifications had been received pursuant to said Decision. Details in respect of quantities, prices and delivery dates were provided in a summary table (DPC/PTL/W/43). In June, Australia and Finland had advised the Committee that the quantities of butter contracted within the terms of the Decision had already been shipped.

12. The representative of New Zealand recalled that the New Zealand Dairy Board had contracted to supply 100,000 tons of butter to the USSR within the terms of the Decision of 12 December 1990 at a price of US\$1,150 per metric ton f.o.b. Deliveries under this contract had been delayed due to payment difficulties experienced by the USSR. However, these problems had been resolved in April and shipments began to take place in late May. Heavy shipments of butter took place in June and July and a total of 61,000 tons had been exported to date in fulfilment of the contract. Additional quantities were being supplied in September and further deliveries were scheduled in October and in November 1991. Unfortunately, because of the political and financial uncertainties within the USSR market, it had not been possible to complete the scheduled deliveries by the deadline of 30 September 1990. New Zealand intended to complete the deliveries in accordance with the provision of the derogation, which permitted deliveries to continue during the period 1 October to 31 December 1991.

13. The representative of the EC said that the fulfilment of the contract concluded for the supply of 200,000 tons of butter to the USSR continued to pose difficult problems. Delays were due to two major reasons. First of all, despite pressures from the USSR for unreasonably low prices,

i.e. between US\$700 and US\$900 per ton, the Community had resisted the temptation to sell immediately at such prices and had in February, fixed a special refund of ECU 212 per 100 kgs. for sales to the USSR. This refund which was reduced in March to ECU 198 per 100 kgs. and in June to ECU 195 per 100 kgs. to take account of changes in the value of the United States dollar, would allow sales to take place at around US\$1,000 per ton. Due to payment difficulties experienced by the USSR, a sale of only 35,677 tons had been made to date, some 30,000 tons of this quantity already having been shipped. Secondly, a consignment of 124,000 tons was envisaged which should be taken from intervention stocks held in different member States. Although a tendering procedure had been opened in April for this quantity, no offers had yet been made in several consecutive tenders. He recalled that as traders had to pay a deposit and did not want to lose it, they were very cautious because of the difficulties encountered in receiving guarantees from the USSR. The regulation adopted in April provided for the special sale of intervention butter for export to the USSR under a standing invitation to tender until 31 July 1991. This regulation was amended in August because it had not yet been possible to award the whole quantity of butter put up for sale. The standing invitation to tender was extended until 31 October 1991 and the deadlines for removing and importing the butter had been altered accordingly. The purchaser should now remove the butter which had been sold to him not later than 30 November 1991 and the importation must be effected not later than 31 December 1991. The representative of the EC hoped that by the end of December 1991 all, or a major part of, the deliveries under this contract would be completed. He noted, however, that uncertainties persisted as to whether the quantity of 200,000 tons initially contracted would be delivered in its entirety by the end of the year. He reserved the right of his delegation to revert to the matter in due course, if necessary.

14. The representative of Uruguay expressed the view that problems related to guarantees of payment could not be considered as the inability of the USSR to take receipt of the deliveries, and so deliveries subsequent to 30 September 1991 would not be within the terms of the Decision. If the intention of some participants was to continue this operation, a new derogation would have to be requested.

15. In reply, the representative of the EC reiterated that because of the inability of the USSR to take receipt of the deliveries, the scheduled uncompleted deliveries would have to be completed during the period 1 October-31 December 1991, in conformity with the provisions of the derogation. In commercial terms, the difficulties of the USSR taking delivery of the butter sold to it, included also the payment difficulties experienced by this country. When the necessary guarantees were received, deliveries would be made in a number of slices and hopefully all shipments would be completed by the end of December 1991. He noted, moreover that the recent events in the USSR could not have been foreseen by anyone and that the situation in that country continued to be unforeseeable.

16. Several representatives noted that in ten months the EC had delivered only 30,000 tons of butter to the USSR and wondered whether the EC would be able to deliver the remaining 170,000 tons by the end of December 1991. It

was observed that the EC representative had not excluded the possibility of effecting shipments beyond 31 December 1991.

17. The representative of Australia expressed particular concern, recalling that the September cut-off date had been specified in order to allow for new trade to develop and this fitted in the Australian production pattern. He reiterated that an extension or rollover of the derogation would cause difficulties to Australia.

18. The representative of New Zealand recalled that as far as her country was concerned, the problem of payment guarantees from the USSR had been resolved in April this year. What was at issue now was the physical ability to send the remaining 39,000 tons under the contract with the USSR within the next two weeks and the ability of the USSR to physically take receipt of that quantity. In the terms of the derogation, the extension for deliveries until the end of December 1991 had been clearly foreseen. She stated that an extension or rollover of the current derogation would be difficult to accept and would create a major problem for New Zealand.

19. The representative of the EC reiterated that uncertainties persisted as to whether the quantity of 200,000 tons initially contracted would be delivered in its entirety by the end of December 1991. It was indeed uncertain whether the USSR would still be able to buy butter in the very near future, but any considerations concerning further delays in deliveries would be merely hypothetical at this stage. He recalled that his delegation had reserved the right to revert to the matter in due course if necessary.

20. In reply to a question regarding the nature of the contract concluded for the supply of 200,000 tons of butter to the USSR, he referred to the discussion on this matter at the previous meeting in June (DPC/PTL/20, paragraphs 10 to 21) and recalled that one Community operator had concluded that contract. There was no commitment under the Decision to provide the name of this operator. Moreover, in conformity with the Arrangement, participants were not required to disclose certain information which was considered to be confidential. He also recalled that the remaining shipments would be made in several slices and there could be several prices, all being around US\$1,000 per ton, because the special refund granted for this sale allowed sales to take place around this price. He reiterated that certain questions still had to be dealt with and that the question of guarantees for payment and the question of prices were linked. These questions would hopefully be solved soon. He still believed that it would be possible to supply the whole quantity contracted or a major part of it and he reassured the Committee that the total quantity finally delivered would certainly not be higher than the quantity initially contracted and that the prices would not be lower than US\$1,000 per ton.

21. The representative of Uruguay referred to the reply by New Zealand to Questionnaire 2 for the second quarter of 1991 and noted that in that quarter New Zealand effected exports to the USSR and also to several other markets, i.e. some 25,000 tons to the USSR and 20,000 tons to other markets. Taking into account the figures for production and for stocks

provided in that reply, it appeared that New Zealand stocks were not sufficient to immediately fulfil both sales contracted with the USSR and commitments to deliver butter to other countries. He questioned whether the delays in deliveries were actually due to the payment difficulties experienced by the USSR or resulted from the commercial planning needed to fulfil competing export commitments. Such a possibility caused serious concern to Uruguay.

22. In reply, the representative of New Zealand underlined that the fundamental question was not the availability of supplies from New Zealand. The Board would not have sold butter at the low price of US\$1,150 per ton f.o.b. if it did not have a requirement to move the product to that particular market. The real issue was one of the physical movement of the product and the organization of that in relation to New Zealand's production and stock capabilities. When the contract had been concluded in December 1990, it had been hoped that it would be possible to effect delivery before the end of September 1991. However, it had been foreseen at that time that certain circumstances might arise which would cause some delay and the terms that were provided for that. Unfortunately, deliveries had been delayed due to payment difficulties experienced by the USSR and payment guarantees had been received only in April allowing deliveries to begin only in late May. For these reasons, the completion of deliveries would extend beyond 30 September 1991 but all deliveries would be completed before 31 December 1991. This situation was in complete conformity with the terms of the derogation.

23. The representative of Uruguay disagreed with the explanations given. His delegation did not consider that shipments to be made in the period 1 October to 31 December 1991 would be covered by the derogation. He expressed concern that this additional period in order to complete the deliveries, had become necessary also due to certain commercial problems rather than difficulties of the USSR taking delivery. He stressed that the extension of deliveries would not consequently be in conformity with the derogation.

24. The representative of the EC strongly rebutted the view expressed by Uruguay. He stressed that because of the inability of the USSR to take receipt of the deliveries and not for any other reason, the scheduled uncompleted deliveries would have to be completed during the period 1 October to 31 December 1991, in conformity with the provisions of the Decision of 12 December 1990 (DPC/PTL/16).

25. The representative of Uruguay said that in his statement he did not refer to the EC. In the view of his delegation, the delay in the deliveries of butter from New Zealand had behind it some commercial problems and this was demonstrated by the statistics provided by New Zealand in reply to Questionnaire 2. New Zealand had carried out exports to other markets, some of them being of interest to Uruguay, and had not concentrated all its production capacities in order to comply with the contract already signed with the USSR. Therefore, the delays in shipments from New Zealand were not due to facts covered by the derogation.

26. The representative of New Zealand agreed with the points made by the EC. His delegation also strongly rebutted the views expressed by Uruguay. New Zealand was in full compliance with the provisions of the derogation. He wished to recall again that the contract concluded in December 1990 was for 100,000 tons of butter to be delivered within the time-frame specified by this derogation. The execution of the contract was dependent on satisfactory payment arrangements. It had taken New Zealand four months of very difficult discussions to solve these payment. That delay meant that stocks which had been allocated for this particular market when the contract was signed were no longer suitable and had to be diverted elsewhere. As a result of the delay in receiving the guarantee for payment there had been consequential effects in terms of the product that could be supplied, the shipping arrangements which had to be put in place and the physical receipt of the product by the customer. For all these reasons, New Zealand had been forced to extend deliveries beyond the initial deadline foreseen, i.e. the end of September 1991. The scheduled uncompleted deliveries would be completed during the period 1 October-31 December 1991, in conformity with the provisions of the derogation. New Zealand had no other commercial objective in mind but to satisfy the customers requirements and also satisfy the terms of the Decision of 12 December 1990 (DPC/PTL/16).

27. The representative of Australia observed that the USSR had recently made a request for food aid to the EC. He asked the representative of the EC to provide the Committees with an assessment of the likely impact of any such food aid on future sales to the same market, including sales under derogation.

28. In reply, the representative of the EC informed the Committees of a very recent request by the USSR for massive food aid including dairy products, e.g. 350,000 tons of butter. He stressed the exceptional, unprecedented and emergency character of this particular request for food aid. He also underlined its huge financial cost and its political importance. He referred to statements made by his authorities according to which the EC alone could not take up such an unprecedented request for food aid in its entirety and would probably need to act in co-operation with other countries in a position to assist the USSR. With regard to the possibilities of continuing commercial exports to that market, this would depend on the availability of hard currency in the USSR. He noted that no decision had yet been taken, but decisions on this particular request for food aid would be taken at the highest political levels and were not dependent on the provisions of the International Dairy Arrangement.

29. The representatives of Australia and New Zealand felt that such transactions might adversely affect their commercial interests. They stressed the commercial importance of this market and sought assurances that any decision to provide food aid in response to the request from the USSR should be such as to cause minimum disruption to the commercial market. They recalled the provisions for consultations contained in the Arrangement, i.e. Articles IV:6 and V:3 and they stressed their rights for appropriate consultations.

30. The representative of Australia requested that the matter be maintained on the agenda for the next regular meetings and reserved the right to request the Chairman to convene a special meeting on this issue.

31. The Committees took note of the comments and statements made concerning sales under derogation.

Review of the market situation for products covered by the Protocols

Switzerland

32. In Switzerland, milk deliveries in the first seven months of 1991 totalled 1.886 million tons compared to 1.799 million tons in the corresponding period of 1990, an increase of 4.8 per cent.

33. Cheese production registered an increase of 5.8 per cent in the first two quarters of 1991 totalling 67,600 tons. In that period, imports increased by 6.5 per cent to 13,200 tons and exports were up by a mere 0.3 per cent to 29,100 tons. For the year 1991 as a whole, exports were expected to remain unchanged. During the first six months of 1991, consumption increased by 8.4 per cent to 51,900 tons. Stocks at 23,500 tons on 30 June 1991 were considered to be normal. Export and import prices remained high in the second quarter of 1991, averaging respectively US\$6,500 and US\$6,000 per ton.

34. Skimmed milk powder production increased by as much as 18 per cent to 19,700 tons during the first two quarters of 1991. In that period, consumption registered a decrease while stocks on 30 June 1991, at 10,700 tons, were relatively higher than a year earlier. This situation led his authorities to adopt certain measures. As of 1 July 1991, the Federal Council had increased by 2 centimes per kg. the amount of the refund on fresh skimmed milk used for animal feed and had accordingly amended the Milk Order, Cheese Marketing Act and Dairy Economy Order of 1988. This increase in the refund should help to check the decline in sales of skimmed milk and restore the incentive to use it for animal feed purposes, which was ecologically highly desirable. Furthermore, any increase in such utilization might lead to lower exports in the form of surplus skimmed milk powder. The cost of this measure should therefore be offset by the reduction in expenditure relating to the export of skimmed milk powder. In order to promote the disposal of skimmed milk powder, the Federal Council had also adapted the standards relating to the composition of milk substitutes intended for animal feed. As from 1 July 1991, whey and buttermilk powder could not represent more than 2 per cent of the minimum skimmed milk powder content of such substitutes (as against 8 per cent previously). The share of skimmed milk powder had thus been increased by 4 per cent. Skimmed milk powder processed into a milk substitute was subject to a price reduction of 1 franc per kg. This should help to increase the profitability of fattening calves while promoting the disposal of skimmed milk powder.

35. Butter production increased by 10.4 per cent from 18,200 tons to 20,100 tons during the first two quarters of 1991. During that period, imports recovered and rose to 2,400 tons as compared to 300 tons in the first six months of 1990. Butter consumption increased by 2.8 per cent from 17,800 tons during the first two quarters of 1990 to 18,100 tons during the first two quarters of 1991. Stocks of butter on 30 June 1990, at 8,900 tons, were considered to be at normal levels. It was forecast that production might remain stable in the second half of 1991 and that further imports might be effected towards the end of the year.

Sweden

36. The general dairy situation in September 1991 was still characterized by reduced milk deliveries. As a consequence, the Swedish dairies had reduced their production of dairy products such as butter and cheese. Milk deliveries were currently expected to decrease from 3.43 million tons in 1990 to 3.20 million tons in 1991, mainly due to the effects of the more market oriented new agricultural and food policy which came into force on 1 July 1991. A further decline in cow numbers to about 500,000 head would be one important likely result of the on-going reform.

37. Production of cheese was fairly stable during the second quarter of 1991 compared to the same quarter of the previous year. No figures were yet available concerning foreign trade during the second quarter but the forecast was still that imports and consumption of cheese were likely to increase in calendar year 1991. Production and exports of cheese were both expected to reach significant lower levels in 1991 compared to the previous year.

38. Production of skimmed milk powder was down from 35,300 tons in the first half of 1990 to only 24,000 tons in the first half of 1991. This meant a reduction of almost one third. Total domestic consumption remained almost unchanged during this period. Exports of skimmed milk powder showed a major increase, the reason being the abolishment of export subsidies as from 1 July 1991. Together with the decline in production, stocks at the end of June 1991 were at historically low levels. Average export price in early September 1991 was reckoned at US\$1,500 per ton f.o.b.

39. Butter production amounted to 13,400 tons in the second quarter of 1991, a decrease of 10 per cent compared to the corresponding quarter of 1990. The tendency towards declining production and exports was to some extent explained by the effects of the new agricultural policy (abolishment of export subsidies and collective export financing system, introduction of a new simplified equalization scheme for dairy products). It should, however, also be noted that 1990 had been a year with relatively large production of which a considerable quantity had to be exported because of the consumer preferences for vegetable fats. Average export price, in early September 1991, was reckoned at US\$1,350 per ton f.o.b., i.e. the minimum export price.

Norway

40. During the first six months of 1991 milk deliveries decreased by 5 per cent compared to the same period of 1990. Milk deliveries were, however, expected to increase somewhat during the third quarter of 1991. All in all, total milk deliveries for 1991 were estimated to reach 1,800 million litres, which was 50 million litres less than in 1990.

41. During the first six months of 1991, butter production dropped approximately by 10 per cent compared to the first half of 1990. This was partially a result of the decline in milk deliveries as well as increased butter oil production. This lower production level for butter was expected to continue throughout 1991. Consumption of butter increased slightly in Norway. Sales of butter to ordinary household consumers rose by 2 per cent compared to 1990, while industrial consumption decreased somewhat. Norway exported 3,895 tons of butter during the first half of 1991. This was less than for the same period last year and total exports for 1991 were expected to be about 10 to 15 per cent lower than previous years. As usual, Norway had no butter imports nor were any expected.

42. Norwegian cheese production for the first half of 1991 was 10 per cent lower than for the corresponding period of 1990. This was partially due to the lower milk deliveries. In that period, consumption increased by 5 per cent. Cheese imports increased also by about 5 per cent but were expected to drop to 1990's level by the end of 1991. Exports declined substantially but were expected to pick up during the third and fourth quarters. Total exports for 1991 should be around 23,000 to 24,000 tons, which was about the average level of the last few years.

43. The market situation for skimmed milk powder was normal. No substantial exports of milk powder were effected and imports were nil.

Finland

44. In Finland, milk deliveries during the first and second quarters of 1991 were 8.3 per cent lower than in the corresponding period of last year. Preliminary figures for June and July 1991 showed respective decreases of 13.7 per cent and 13 per cent compared to the corresponding months of 1990. This rapid decline was a result of the milk buy-out scheme, which was implemented in December 1990/May 1991, covering 215 million litres of milk. In 1991, deliveries were expected to decrease by some 11 per cent to 2,350 million litres. The outlook for 1992 was for a further decline in milk deliveries to 2,300 million litres.

45. Butter production during the first six months of 1991 was 3.7 per cent lower than in the same period last year. Estimates for the whole year 1991 indicated that production would decrease by 10.8 per cent to 55,900 tons. In that period, butter consumption increased by 18.2 per cent compared to the first two quarters of 1990. Estimates for the whole year indicated an increase of 9.5 per cent. In January-June 1991, some 14,000 tons of butter were exported at an average price of US\$1,308 per ton f.o.b. in January-March and of US\$1,369 per ton f.o.b. in April-June. The main part

(7,000 tons) of these exports were under derogation to the USSR which could, in conformity with the Decision of 12 December 1990, be sold at a price below the minimum export price. For normal sales, export prices were between the minimum export price of US\$1,350 per ton f.o.b. and US\$1,600 per ton f.o.b. No sales were made at prices lower than the minimum export price with the exception of the above-mentioned sale under derogation to the USSR. Stocks at the end of July were at the relatively low level of 6,800 tons. It was forecast that in 1992 production would amount to 53,000 tons with consumption reaching 38,000 tons and exports not higher than some 15,000 tons.

46. Cheese production decreased by 7.8 per cent to 43,700 tons in the first half of 1991 as compared to the corresponding period of 1990. Estimates for the whole year indicated a 9 per cent decrease in production (to 85,000 tons) compared to 1990. Consumption was expected to increase to 67,000 tons in 1991 from 63,000 tons in 1990. In the first six months of 1991, some 11,000 tons of cheese were exported, a decrease of 13 per cent compared to the corresponding period of 1990. Export prices averaged US\$3,920 per ton f.o.b. in the first quarter and US\$3,540 per ton f.o.b. in the second quarter of 1991. Exports were expected to decrease to 25,000 tons in 1991 from 29,000 tons in 1990. Stocks at the end of June 1991 were 14,800 tons. Forecasts for 1992 were the following: production 84,000 tons, consumption 68,000 tons, imports 1,000 tons and exports 20,000 tons.

47. The production of skimmed milk powder decreased by 14.8 per cent during the first half of 1991 compared to the corresponding period of 1990. Total production for 1991 was estimated at 18,000 tons with consumption reaching 18,000 tons and exports amounting to 6,300 tons. The outlook for 1992 was for production to increase to 20,000 tons, consumption remaining stable at 18,000 tons and exports declining to 2,000 tons.

48. The production of whole milk powder decreased by as much as 43 per cent during the first half of 1991 compared to the corresponding period of 1990. In that period, 5,700 tons of whole milk powder were exported. For the whole year 1991, production might decrease to 10,000 tons compared to 22,000 tons in 1990; exports also might substantially decrease to 10,000 tons in 1991 from 24,000 tons in 1990. The outlook for 1992 was for further declines in production and exports. Average export prices in the first six months of 1991 were around US\$1,400 per ton f.o.b.

South Africa

49. In South Africa the estimated milk intake for the third quarter of 1991 was 511,445 tons, slightly higher than the 510,343 tons in the corresponding quarter of 1990. Since April 1991, the overall intake had been down by around 1.4 per cent compared to 1990, mainly due to the fact that producers had cut back on production and deliveries because of the high level of surpluses and the resultant consequences on prices. Around 252,231 tons of milk were expected to be utilized for fresh milk products in the third quarter of 1991 while 238,156 tons were expected to be utilized for industrial purposes.

50. It was expected that some 4,611 tons of skimmed milk powder would be produced in the third quarter of 1991 compared to the 2,315 tons produced in the second quarter of 1991. The estimated production for the October-December quarter was 10,166 tons resulting in a total estimated production of around 24,454 tons for 1991, compared to 25,522 tons produced in 1990, a decrease by 4 per cent. The consumption estimate for the third quarter was around 2 per cent higher than the previous quarter at 4,050 tons. As overall consumption was far lower than production, exports of skimmed milk powder were still taking place. In the second quarter 5,866 tons of skimmed milk powder had been exported while no imports had been recorded. Stocks reached a level of 3,353 tons by the end of June 1991 and were expected to increase to 3,914 tons by the end of September 1991, then being, however, 32 per cent lower than at the end of September 1990.

51. Whole milk powder production fell by 28 per cent in the second quarter of 1991 to 2,253 tons and was expected to decrease further to 1,388 tons in the third quarter. Consumption fell by 5 per cent, as was expected, in the second quarter to a level of 2,254 tons but it was expected to increase to 2,698 tons in the third quarter. No imports were recorded so far this year and it was expected that this would remain so. The stock position was 2,853 tons by the end of the second quarter and was expected to be around 1,543 tons by the end of the third quarter of 1991.

52. Butter production decreased to 3,226 tons in the second quarter of 1991 but was expected to increase by 18 per cent to 3,814 tons in the third quarter, while the estimate for the fourth quarter was 6,753 tons. In total the estimated production for 1991 would be 19,598 tons or around 7 per cent lower than the 20,991 tons produced in 1990. The consumption of butter was 12 per cent lower at 3,399 tons in the second quarter of 1991 but was expected to increase again to 4,107 tons by the end of the third quarter. In the second quarter of 1991, exports amounted to 2,124 tons. By the end of the second quarter, 3,897 tons of butter were in stock and the expectation was that the level of stocks would be 3,604 tons by the end of September 1991.

53. The expected cheese production for the third quarter of 1991 was 12,583 tons. In the second quarter, 7,867 tons were produced while consumption amounted to 10,002 tons. No imports of Cheddar or Gouda cheese were recorded so far this year and none was expected for the third quarter. Stocks reached a level of 8,203 tons by the end of June 1991 and were expected to be around 9,607 tons by the end of September 1991.

Poland

54. The situation of the dairy sector in Poland continued to be characterized by the same factors which were outlined by the Polish expert at the last session of the Committees. Internal prices remained at high levels as a result of expensive credit, sharp increases in energy and transport costs and the simultaneous elimination of subsidies. This had, in turn, a continuous depressing effect on domestic consumption and diminished the profitability of farms. This situation led to a further decrease in milk production. In the second quarter of this year,

production of liquid milk dropped by 11 per cent in comparison with the first quarter of 1991. As compared with the second quarter of 1990 the decrease amounted to 37 per cent.

55. With regard to dairy products covered by the three Protocols, a number of statistical data were still not available. The data which had been collected for the second quarter of this year concerned mainly stocks at the end of June 1991. Stocks of cheeses were at approximately the same level as at the end of the first quarter this year and amounted to 15,000 tons. The whole production of cheeses, which in the second quarter of this year amounted to 26 thousand tons, was disposed on the internal market. Stocks of milk powders increased by about 11 thousand tons in the second quarter and reached the level of 28 thousand tons at the end of June 1991. The increase in the stocks of milk powders was due to the expansion of domestic production. Stocks of butter amounted to 11,600 tons at the end of June 1991.

56. The system of controlling export prices of all products covered by the Protocols continued to be applied by means of export licensing. It had proved to be effective in introducing more order into export transactions which were carried out by a great number of independent, private trade operators.

New Zealand

57. In New Zealand, climatic conditions affecting milk production in 1990/91 were favourable from June to December 1990. Dry weather in the main dairying areas caused a significant decline in milk production in January and February 1991. Production recovered in autumn with a return of mild and moist conditions. Milk production for the 1990/91 season was 7.9 million litres, 3 per cent more than in 1989/90. Milk fat processed by dairy companies in the 1990/91 season was 342,000 metric tons compared to 330,100 metric tons in 1989/90. The volume of most dairy products manufactured in 1990/91 was similar to that in the previous season with the exception of whole milk powder which increased and skimmed milk powder which decreased.

58. The new season was now getting into full swing with calving completed in most areas. Spring pasture conditions had been adequate to good in most regions. It was still much too early however to be in any way precise about the level of production of milk which would be achieved. This would depend on seasonal weather and pasture growth conditions experienced later in the season, especially during January, February and March 1992. If average conditions pertained, then production was likely to be closely in line with the season ended 31 May 1991. There had been no significant transfer of resources into the industry, with cow numbers and the amount of land devoted to dairy pasture about steady. This reflected the fact that the dairy industry was treading water at the moment.

59. Financially, the season completed on 31 May 1991 was one of the worst on record in terms of farmer incomes. Manufacturing milk prices were slashed by 36 per cent from the season before. This meant that farmers gross incomes had been, on the average, reduced by more than one third leaving the net income position of many at barely survival level. Many had had to resort to bank borrowing or to drawing on other back-up financial resources simply to keep their heads above water, something which clearly was not sustainable long term. The fall in prices and incomes had been a direct reflection of the collapse in returns from international markets experienced in 1990 and into 1991. New Zealand farmers' reliance on returns from the international market had been reviewed in detail in the course of previous meetings and the causes thoroughly examined. However, the dairy and trade policy decisions which underlaid the market price collapse were capable of being reversed and this was what her delegation wanted to focus on in the present meeting.

60. Despite the poor season from an economic viewpoint, commercially it was reasonably successful with the season ending with all production either sold or committed to export markets. Crucial to this was the sale of 100,000 metric tons of butter to the USSR in December 1990. This not only had taken the pressure off New Zealand's bulk supply position but pressure on other product sectors also, such as cheese. Stocks held by the New Zealand Dairy Board at the beginning of the current season (noting that all stocks were commercial stocks) were comfortable to tight for all products.

61. With regard to the situation and outlook, there had been a measurable improvement in international dairy markets in the course of the last month, although the future of trade in butter to the USSR beyond current contracts remained a question-mark. The market improvement had been especially noticeable for milk powder. Her delegation saw a much better basis emerging for a solid improvement in prices from the levels reported in the first half of the year. New Zealand was encouraged by this development, which now needed to be underpinned.

62. The better market outlook was primarily a reflection of the tightening of supply, especially of milk available for milk powder manufacture, as milk production in the northern hemisphere had reduced seasonally. This was especially important in the European Community but was also influencing availability from smaller European exporters such as Poland, and was influencing the market inside the United States. The better market outlook was also a reflection of a weakening in the value of the United States dollar against major European currencies. Between the middle of July and mid-August this had been of the order of 4 per cent.

63. With regard to market supply she noted that developments inside the European Community, resulting in reducing milk production and the diversion of milk to whole milk powder manufacture (as well as to expanded cheese production), had brought the market for milk and dairy products much closer to an equilibrium position, at least for the short term. There had been no further offers of skimmed milk powder to intervention and the outlook seemed firm. Supplies of butter had also tightened and there had been price firming in this market sector as well. Price quotations for whole

milk powder had been especially high reflecting the generally tighter availability of milk but also the commitment of production capacity to the food-aid supplies of whole milk powder being procured for the USSR. Cheese markets on the other hand had so far not been influenced to the same degree.

64. It remained New Zealand's view that changes in the international dairy market situation - in both directions - were to a very large extent driven by developments within the European Community. There was no question of some independent international market operating. The effect of recent developments within the EC had been to see higher export offer prices from EC traders. Other exporters had been able to follow these.

65. Export availability from other European sources was now very limited and apparently reducing. In the United States, milk production was still falling and with demand for cheese and dry milk products strong, the market was well balanced with prices for these products firmly established above the Government's support floor. Surplus butter stocks held by the Commodity Credit Corporation remained substantial but with the seasonal peak of production passed, these were not expected to increase significantly, if at all, in the course of the rest of the current calendar year. With new season's production only now getting under way in the southern hemisphere, supplies of all products from Australia and New Zealand were still limited.

66. Summing up, she noted that the improvement had come about primarily because of developments on the supply side of the market. Leaving aside the very special case of the USSR, there had been no major demand changes which had influenced the general state of the market. Supply side influences had been partly seasonal with the late summer and early autumn being the period when milk supplies in most northern hemisphere producing countries were declining. Thus, since late June/early July, there had been lower milk production in Europe (the EC, Scandinavia and in Poland, Hungary and Czechoslovakia), in North America and Japan which had tightened up the supply of freshly manufactured dairy products, especially butter and skimmed milk powder. This had coincided with the relatively tight availability of products from southern hemisphere suppliers, Australia and New Zealand. But they (i.e. supply side influences) also reflected policy decisions to apply more effective controls on excess production where production benefited from price supports. Developments in the EC were especially important, and even overwhelmingly important. New Zealand saw the milk quota cuts which the Community had applied this year as crucially important. Equally important were the programmes which the Community had continued to operate to support consumption on its internal market: these were, specifically, programmes for skimmed milk powder to animal feed and butter to the food industry. The maintenance of an improved balance in the internal Community market and the careful management of the stocks of butter and skimmed milk powder held in intervention, was in the view of New Zealand, by far the single most important factor in maintaining the improved balance of the international market. The lift in export offer price levels from the EC which had come about because of these developments (coupled with a weakening of the United States dollar against Community currencies) had enabled other exporters to lift their prices also.

67. With regard of export pricing for butter, she noted that activity on the international market had continued to be very quiet with no new sales from New Zealand beyond small volume general trading. In addition there had still been no sales from the United States under the Dairy Export Incentive Programme, and none seemed immediately likely. Of most significance had been the tightening in availability of fresh supplies and firming of prices within the European Community. The translation of this into higher theoretical export offer prices from Community suppliers had lifted general trade spot pricing above US\$1,425 per ton f.o.b, though actual sales volume recorded at these levels remained so far negligible and currency value changes meant that process were variable. Current prices were in the range of US\$1,450-US\$1,500 per ton f.o.b.

68. Concerning butter oil, the firming of butter prices in Europe had helped in lifting the raw material costs for butter oil manufacture and this, together with the weaker United States dollar, had lifted export offer prices to levels around US\$1,700 per ton f.o.b. Current prices were in the range of US\$1,675-US\$1,750 per ton f.o.b. However, the situation was unstable. Her delegation had raised concerns about EC compliance in the past and considered this situation could easily occur again given the level at which restitutions were set; e.g. if the United States dollar were to strengthen again.

69. With regard to skimmed milk powder, she noted that the demand position had remained as before but there had been a significant lift in market price prospects largely because of developments within the European Community market. Fresh supplies were also now tight from all other suppliers and, looking ahead, total availability might be barely sufficient to meet normal market requirements, certainly in the next few months. Whereas in June and into early July prices were being quoted down to the minimum export price of US\$1,200 per ton f.o.b. by mid-August they had lifted above US\$1,400 per ton f.o.b. Current prices were between US\$1,500 and US\$1,550 per ton f.o.b.

70. Until recently, whole milk powder had also been trading at the minimum price of US\$1,250 per ton f.o.b. Now however, in parallel with developments for skimmed milk powder, prices had lifted significantly. Export prices from the Community and thus international market prices were now at levels above US\$1,500 per ton f.o.b. Current prices were between US\$1,525 and US\$1,575 per ton f.o.b.

71. Cheese markets had not so far been influenced by these developments to the same degree as other products but a more positive pricing outlook was nonetheless beginning to emerge with current prices ranging between US\$1,550 and US\$1,700 per ton f.o.b.

72. Similarly, casein markets had yet to show a clear adjustment to the tighter availability of skimmed milk in Europe and to the generally firm milk protein prices in the United States. It seemed nonetheless that, as for cheese, improvements might soon come through.

73. The representative of the EC noted that the rise in prices was a very recent occurrence and that it would not be wise to base an evaluation of the situation in, and outlook for the world market for dairy products, notably milk powders, on short term assessments. His view of the market situation was quite different and with regard to long-term expectations the EC was less optimistic and therefore had begun to reduce its production since 1984. However, the EC reductions were being offset by increases in production in other countries.

74. The representative of New Zealand reiterated that changes in the international dairy market situation - in both directions - were to a very large extent driven by developments within the EC. Recent developments within the EC resulted in higher export offer prices from EC traders. Other exporters, including New Zealand, followed these. With regard to the level of milk production in New Zealand, she recalled that this level was determined by the export performance of the dairy industry relative to other alternative uses of the land with short-term variations resulting from changing climatic conditions. The level of production had remained within a band unchanged over twenty years with minor fluctuations within that band from year to year.

Japan

75. Production of raw milk between April and June 1991 decreased by 0.8 per cent over the same period last year, due to the slower than expected recovery from the damage caused by unusually hot weather in the summer of 1990. However, output was recovering, particularly in the main production regions, and production of raw milk in this fiscal year would exceed that of last year. The demand for drinking milk continued to expand, and showed a 1.6 per cent increase in the same period. Because of these reasons, raw milk available for producing butter and skimmed milk powder decreased by 3.3 per cent over the same period. Demand for butter and skimmed milk powder, on the other hand, had expanded more than forecast due to the demand for higher quality bread and confectionery, and favourable sales results for new products. Considering these circumstances, the Livestock Industry Promotion Corporation (LIPC) imported butter and skimmed milk powder and released them onto the domestic market, even though the circumstances of the Japanese dairy sector had not been favourable to imports. The LIPC has imported 3,500 tons of butter and 17,700 tons of skimmed milk powder so far. In September, further imports by the LIPC were announced, i.e. 11,000 tons of butter and 20,000 tons of skimmed milk powder. These imports would offer interesting export opportunities for the main suppliers to Japan. Imports of cheese were also expanding.

76. Imports of skimmed milk powder between April and June 1991 increased to 32,000 tons compared to 18,000 tons imported in the same period of 1990. This was due mainly to the increase in imports by the LIPC. The import price had risen since the first quarter of this year, particularly for skimmed milk powder for animal feed (by 10 to 20 per cent).

77. Imports of butter increased in the same way as for skimmed milk powder, due mainly to the increase in imports by the LIPC. The import price of butter had been maintained or raised slightly (by 5 per cent or less) since the first quarter of this year. As for the LIPC's imports of 11,000 tons of butter and 20,000 tons of skimmed milk powder announced in September, 8,000 tons of butter and 15,000 tons of skimmed milk powder had already been tendered and would be imported and released onto the domestic market soon. The tight supply and demand situation of dairy products was expected to move to a balanced situation as a result of these imports.

78. Imports of cheese were increasing, particularly for cheese for processing into "melting sliced cheese" due to good sales of this new type of processed cheese. Import prices had dropped slightly (by about 10 per cent) since the first quarter of 1991.

Hungary

79. The situation of the dairy sector deteriorated steadily throughout the second quarter. The problems facing it had even worsened, and there was no sign of any more favourable trend for the second half of the year. Consumption of dairy products continued to decline in 1991; according to latest estimates, it amounted to only 135 kgs. per capita this year, as against 205 kgs. in 1987. This 35 per cent drop in four years was attributable to the decline in purchasing power in general and the rise in dairy prices in particular. With the elimination of consumer subsidies, consumer prices had risen two-and-a-half times in four years. Likewise, there had been no change as concerns the possibilities of disposal on traditional markets, especially those of neighbouring countries.

80. The cattle herd stood at 1,576,000 head at the end of the first half of the year, which represented a 3.4 per cent drop compared to the same period in 1990, but a much larger drop, of 9.9 per cent, compared to the average for the last five years. The number of dairy cows decreased even more, by 5.6 per cent compared with the previous year. Milk deliveries had also declined substantially (by 16.5 per cent) in comparison with the purchases made in the course of the same period in the previous year.

81. As regards skimmed milk powder, consumption and production both dropped substantially in the period January to end June 1991, by 61 and 60 per cent respectively. On the other hand, consumption of whole milk powder increased by 19 per cent, and production by 37.7 per cent over these six months. During the first half of the year, exports of skimmed milk powder were well above the level for the first half of 1990 (137 per cent) but with a downward trend; exports in the second quarter were 60 per cent below those of the first quarter. In the case of whole milk powder, exports rose slightly to 4,600 tons in the first half of the year, an increase of 9.5 per cent over the same period in the previous year. Despite this upturn in exports during the first half of the year, the outlook remained gloomy for the rest of the year; the political and economic situation in two major markets, the USSR and Yugoslavia, remained highly uncertain and payment problems with the USSR continued to cause serious difficulties for the disposal of Hungarian products on those markets.

82. The volume of butter production increased slightly during the second quarter of 1991 compared with the first quarter of 1991, rising from 6,700 tons to 7,300 tons, but still remaining well below the corresponding figures for 1990. In relative terms, the drops represented 17 and 31.1 per cent. Exports also rose above the level attained in the first half of 1990 by 2,400 tons, or 60 per cent. On the other hand, consumption dropped by 27 per cent in the first half of the year, and by 53 per cent in the second quarter alone.

83. With regard to cheese, production remained slightly below the level of the first half of 1990, with a decline of 2.2 per cent (600 tons). Consumption dropped steadily (by 16 per cent) during the first half of the year compared with the same period in 1990. The overall level of exports remained unchanged in the first half of the year.

84. He concluded by highlighting the steady decline in domestic consumption and the highly uncertain situation in traditional markets which weighed heavily on the outlook for the Hungarian dairy sector. According to latest estimates, dairy production would certainly continue to decline this year, which would also lead to a drop in the production of processed dairy products. Exports would continue to depend on the general situation in the dairy market and particularly the import capability of neighbours of Hungary, primarily the USSR.

Bulgaria

85. The representative of Bulgaria provided information on production and trade of cheeses, the most important dairy product for Bulgaria covered by the Arrangement. Compared to the first quarter of 1991 the output of cheeses increased significantly in the second quarter and reached 33,300 tons. In spite of this increase, cheese production was lower by 23,600 tons or 41.5 per cent compared to the same period of 1991. Exports followed the positive production trend during the second quarter and increased significantly to reach 4,800 tons. However, exports in the first half of 1991 declined to 6,900 tons, which was 400 tons or 5.5 per cent less compared to exports in the corresponding period of 1990. The main export markets were the USSR, the United States, Germany and Austria. There were no imports of cheeses in the period under consideration.

86. In the second quarter of 1991 there were neither exports, nor imports of skimmed milk powder. There were also neither exports, nor imports of buttermilk powder during the period under consideration. There were no exports and nearly no imports of whole milk powder.

87. Butter production in the second quarter of 1991 was nearly at the same level as the first quarter of this year. It decreased by 100 tons to reach 4,300 tons. However, this represented a significant drop compared to the corresponding period of 1990 when production was equal to 7,400 tons. The figures for the first six months of 1991 showed a decrease in production by nearly 4,000 tons or 31.5 per cent compared to the first half of 1990. No exports or imports of butter were registered in the second quarter of 1991.

Australia

88. Australian milk production in the year ended 30 June 1991 was 6,400 million litres, an increase by 2.2 per cent on 1989/90. The main reason for this increase was the exceptionally good seasonal conditions, taking into account that Australian production was from pasture. Milk production in the 1991/92 season was expected to return to a more normal level of 6,300 million litres. Farmgate prices for manufacturing milk decreased to 19.6 cents per litre in the 1990/91 season compared to 23.9 cents per litre in the 1989/90 season. At 17.4 cents per litre in the opening of the present 1991/92 season, farmgate prices decreased further by 5 per cent over the 1990/91 season. It was expected that final farmgate price for the present 1991/92 season would be about 19 cents per litre. Domestic sales of milk continued to increase, up about 2 per cent in 1990/91 compared to the previous season, roughly in line with population growth.

89. Cheese production in 1990/91 amounted to 176,300 tons, marginally up on the previous season. Total market usage for cheese increased slightly in 1990/91 but this increase was less than in previous years. An important feature was the continuing growth registered in the domestic consumption of cheeses with reduced fat content.

90. Production of skimmed milk powder/butter milk powder increased by 6.7 per cent in 1990/91 to 153,300 tons. This increase reflected in part a decline in casein production. Production of whole milk powder increased to 59,600 tons, up 6 per cent over 1989/90. Domestic demand for powders declined somewhat in 1990/91. These trends seemed to relate to the economic recession in Australia.

91. Preliminary data for butter and butter oil production showed an increase by about 5 per cent in 1990/91 compared to 1989/90; the figures might however be overstated and final data for production of butter and butter oil would be provided soon. In the domestic market, dairy based table spreads maintained their share in 1990/91 in a declining spreads market.

92. Export price ranges in the second quarter of 1991 were as below (f.o.b. per metric ton):

Cheddar cheese	US\$1,550 - US\$1,600
Skimmed milk powder	US\$1,300 - US\$1,350
Whole milk powder	US\$1,300 - US\$1,350
Butter	US\$1,350 (the minimum export price)
Anhydrous milk fat	US\$1,625 (the minimum export price)

93. Some firming in prices had been registered since June 1991. Consequently, Cheddar cheese prices were now ranging between US\$1,600 and US\$1,650 per ton f.o.b. International market prices of milk powders had risen in response to currency fluctuations and increased prices within the European Community. Skimmed milk powder could now be quoted at US\$1,450 per ton f.o.b. while whole milk powder prices increased to around US\$1,550 per ton f.o.b. With regard to butter and butter oil, some firming in prices had been registered in recent weeks.

94. The representative of the EC noted that the Australian evaluation of the situation in the market for dairy products was more cautious and less encouraging than the assessment made by New Zealand. In the view of his delegation, uncertainties persisted as to the outlook for the world market for dairy products. He also noted that the export price ranges indicated by Australia were close to those of the Community. He found the evaluation of the situation made by Australia to give a more accurate picture of the market situation.

Argentina

95. Production of cheese decreased to 50,700 tons in the first quarter of 1991 from 60,000 tons in the corresponding quarter of 1990. In line with production, consumption decreased also in that period to 53,200 tons compared to 56,300 tons in the first quarter of 1990. Exports also registered a substantial decrease, amounting to only 1,800 tons compared to 3,200 tons exported in the first quarter of 1990.

96. Production of skimmed milk powder decreased to 7,500 tons in the first quarter of 1991 from 12,800 tons in the corresponding period of the previous year. However, consumption increased in that period to 5,900 tons from 2,500 tons in the first quarter of 1990. Exports in the first quarter of 1991 were insignificant while they amounted to 1,400 tons in the first quarter of 1990. Production of whole milk powder decreased sharply in that period to 11,200 tons compared to 20,400 tons in the first quarter of 1990. Consumption decreased also from 15,000 tons in the first quarter of 1990 to 10,000 tons in the first quarter of 1991. However, exports increased to 2,500 tons compared to 1,900 tons in the first quarter of 1990, the main destinations being Brazil and Chile.

97. Production of butter decreased to 7,500 tons in the first quarter of 1991 from 13,000 tons in the first quarter of 1990. Consumption of butter decreased also in that period to 5,900 tons compared to 7,300 tons in the first quarter of 1990. However, exports increased to 2,300 tons compared to 1,600 tons in the first quarter of 1990, the main destination being Algeria.

European Economic Community

98. The market situation in the EC had changed considerably since the last meetings of the Committees in June 1991. The new marketing year had begun on 17 June 1991. The Council Decision to reduce milk quotas by 2 per cent and to institute a voluntary buy-out scheme for a quantity of up to 3 per cent of deliveries had been implemented. The limitation of intervention for skimmed milk powder at the full intervention price of ECU 172.43 per 100 kgs. had also been implemented not exactly at the quantity foreseen of 106,000 tons but at 127,500 tons. The tendering procedure had then been brought into force under which a further 74,000 tons had been bought. In the period 1 March to 31 August 1991, a total of 201,400 tons had been purchased, the price being reduced from ECU 168 to ECU 163 per 100 kgs. (94 per cent of the intervention price). A private storage scheme had been introduced for skimmed milk powder.

99. With regard to butter, the Council established a minimum buying-in price of 90 per cent of the intervention price of ECU 292.78 per 100 kgs. At prices ranging from 96 to 90.5 per cent of the intervention price, a total of 167,000 tons of butter had been bought since the beginning of 1991. Purchases had now been reduced to about 150 tons per week.

100. The 2 per cent reduction in quotas was being matched by a fall in deliveries, i.e. 2 per cent fall in the January-July 1991 period compared with the corresponding period of the previous year. The new quotas for EC were 103.7 million tons including 1.7 millions tons for Portugal and 6.2 million tons for the former German Democratic Republic. However, for the purpose of current developments comparisons were made only for EC-12, i.e. the quota then amounting to 97.5 million tons.

101. The changes in the production of the main dairy products during the first six or seven months of 1991 were the following as compared to the corresponding period of 1991:

	<u>First 6 months of 1991</u>	<u>First 7 months of 1991</u>
Butter	-6.0 per cent	-6.5 per cent
Skimmed milk powders	-7.5 per cent	-9.5 per cent
Other milk powders	+14.0 per cent	
Cheese	+ 2.2 per cent	

The decrease in butter and skimmed milk powder production had accelerated during the second quarter of 1991 and more recent indications were that this acceleration was continuing. Whole milk powder and cheese production increased during the second quarter of 1991.

102. With regard to consumption, the most recent estimates indicated that butter consumption would fall by 2.7 per cent in 1991 compared to 1990. However, the 25 per cent increase in the use of butter in the manufacture of pastry products and ice-cream industry might help to reduce that decrease further; in the first seven months of 1991 some 255,300 tons had been used compared to 200,200 tons in the first seven months of 1990. The decrease in the internal butter price and the maintenance of the aid levels undoubtedly had helped this development.

103. Skimmed milk powder uptake for animal feed had also increased by 14 per cent in 1991 compared to 1990 due to the maintenance of the aid level and the reduction in internal prices.

104. Cheese consumption in the first six months of 1991 showed a 3.4 per cent increase compared to the first half of 1990, but the annual increase for 1991 was more likely to be less than 3 per cent.

105. The consumption of drinking milk was static (+0.1 per cent per year). Within that category, whole milk consumption was falling at the rate of about 2.5 per cent annually while skimmed and semi-skimmed milk consumption was increasing by almost 5 per cent. Consumption of other fresh products, i.e. buttermilk, acidified milks, milk based drinks and other fresh

products were increasing by more than 5 per cent annually. Total liquid milk and fresh products consumption was increasing by about 1 per cent per year.

106. Exports of the main dairy products in the five, six or seven first months of 1991 with changes in relation to the corresponding periods of 1990, were the following:

	<u>Quantity (metric tons)</u>	<u>Percentage change</u>
Fresh products	141,200	+ 12.0
Condensed milk	153,200	- 6.0
Skimmed milk powder	198,700	- 47.0
Whole milk powder	307,400	+ 8.0
Butter total	81,600	+ 61.0
of which: to USSR	32,500	+163.0
other destinations	49,100	+ 4.0
Butter oil	40,500	- 12.0
Cheese	203,800	- 5.0

107. Despite the reduction in milk deliveries and the decrease in the production of certain products, the reduction in exports and in the consumption of butter had led to a depressed internal market situation until recently and to a consequent increase in butter stocks. These reductions in exports in 1991 were in addition to important reductions for most products in 1990.

108. Producer prices in some member States had been 5 to 6 per cent lower in May 1991 than in May 1990. The reductions had been smaller in other member States, i.e. reductions of 2 to 3 per cent. Dairy product prices, however, for most products except butter had increased in 1991 and more particularly for skimmed milk powder and whole milk powder, they had increased in recent weeks in particular helped by an increase in internal demand of skimmed milk powder for animal feed and by the supply, as part of an urgent action, of 50,000 tons of whole milk powder to the USSR.

109. The present stock position was 395,000 tons of public stocks of butter and 108,000 tons of private stocks giving a total of 503,000 tons for butter stocks; public stocks of skimmed milk powder were at 514,000 tons while private stocks stood at 38,000 tons giving a total of 552,000 tons of skimmed milk powder; private stocks of cheese were at 170,000 tons.

110. The representative of the EC underlined that the Community producers were constantly unhappy that other suppliers to the world market were increasing their milk production and in some cases had a much improved export performance while they took a cut in deliveries and in prices.

111. As a result of the weakening in the United States dollar, offer prices by the EC had improved. The present range of calculated export prices on an f.o.b. basis were as below:

between US\$1,450 and US\$1,530 per ton for skimmed milk powder;
between US\$1,440 and US\$1,500 per ton for whole milk powder;
between US\$1,490 and US\$1,540 per ton for butter;
between US\$1,800 and US\$1,850 per ton for anhydrous milk fat;
around US\$2,100 per ton for Cheddar cheese.

112. With regard to the general situation of the market the EC was not as optimistic as New Zealand. The EC was holding stocks of almost 500,000 tons of butter and 550,000 tons of skimmed milk powder. Stocks held by the United States were also high. He expressed concern that world stocks of butter and skimmed milk powder would remain high.

Mexico

113. The observer for Mexico noted that the greatest concern of his country, a major dairy importer, was the instability of milk powder prices, which had annual variations of 30-40 per cent. Most suppliers sought long-term arrangements which would guarantee their market shares and the quantities to be delivered, whereas Mexico was more interested in guarantees on prices. He observed that multinational corporations and large traders benefited from the instability. The price differentials among the last set of offers for whole milk powder received by Mexico reached US\$400 per ton. The marketing situation was a complex one with different types of traders seeking differing objectives. One result was problems in quality from some suppliers. The observer further indicated that Mexico did not benefit, in terms of the prices at which product was offered, from the export subsidies granted by certain countries. In late 1989, for example, he recalled that EC internal prices were of the order of US\$2,300 per ton and an export restitution of US\$900 per ton was available. Offer prices to Mexico, however, were in the order of US\$2,150 per ton. In response to this situation, Mexico was trying to reduce its dependence on imports of milk powders. He suggested that there was a need for the major exporting nations to create a futures market for dairy products, in order to provide more stability and certainty.

114. The representative of the European Community commented that the described behaviour of competing exporters was almost incomprehensible in light of the surpluses available at the time. With EC milk powder stocks in the order to 500,000 tons, it was unreasonable for exporters to demand excessive prices or long-term agreements. With respect to export subsidies, the Community representative explained that the EC traders bought skimmed milk powder at the high internal EC price, then received a restitution in order to be able to sell the product at the world price level. EC offer prices to Mexico thus reflected the prices offered by competitors. Nonetheless, he had difficulty understanding how the prices offered to a major importer such as Mexico were around US\$2,150 per ton at a time when the world market price was near US\$1,300 per ton.

115. The representative of New Zealand observed that the price instability in question and the associated problems were induced by export subsidies, which played no part of the trade policy of New Zealand.

Economic Commission for Europe

116. The observer for the Economic Commission for Europe said that in the USSR, cow numbers in State and collective farms on 1 July 1991 showed a decline of 3 per cent and stood at 27.4 million head. During the period January-June 1991, milk output registered a sharp decline of 10 per cent. About the same rate of decline might be forecast for the whole of 1991. Feed shortages decreased profitability of dairy farming and the country's general economic difficulties had probably all contributed to this decline. In the short term, production would continue to be depressed and it was unlikely that increased production in private holdings would manage to offset this trend. Butter output during the first six months of 1991 dropped by 13 per cent while margarine production went down by 22 per cent. Cheese output declined by 14 per cent. USSR's butter imports dropped by 56 per cent during the first half of 1991.

OECD

117. The observer from the OECD said that regarding domestic policies, the basic methods of supporting the dairy sectors of Member countries remained unchanged in their general concept; however, significant evolutions in existing policies had occurred in 1990/91. In general, further efforts had been made to contain public expenditures on dairy price policies; e.g. support prices, target prices and advance payments, in almost all cases had been either lowered or had been unchanged. Quota systems had been more effective, by reducing aggregate volumes, by increasing the mobility of quotas, and by the usage of two-price systems, as well as increased penalty payments and levies on over-quota output. Funds collected through such measures had been used to finance market intervention and/or losses on export operations.

118. The accumulation of stocks, together with stable or declining consumption of milk and dairy products in most OECD countries had created a certain momentum toward the reform of dairy policies in a majority of member countries. In certain countries, (e.g. New Zealand, and to a certain extent Sweden), such dairy policy reform had occurred over a longer period and had been more as a result of a general programme to reduce assistance to the whole agricultural sector, rather from the pressure of increasing dairy product stocks. In the case of Australia, Canada and the United States, official government studies issued in 1991 recommended a variety of changes to limit milk production and to improve the competitiveness of the sector. Both Finland and Norway had recently implemented significant measures to drastically reduce milk output in both the short and medium term in order to better balance domestic supply and demand. For example, Finnish policies ought to reduce milk output by 11 per cent in 1991 alone. In 1991, Switzerland had also implemented more restrictive price, quota and levy measures in an effort to limit both milk production and government expenditures to support the sector. A major

effort to limit production and expenditures related to surplus output was under way in the EC, as a result of intervention stocks of dairy products which reached a total of 910,000 tons by the third quarter.

119. The trend in Producer Subsidy Equivalents (PSE) which indicated the degree of support to the sector through domestic policies (as a percentage of the value of production) had been downward until 1989. However, as a result of the domestic and international market situation for milk and dairy products in 1990, PSEs rose in all countries except in New Zealand.

120. With regard to forecasts for milk and dairy products, the observer said that the milk fat balance for the OECD was forecast to decline by 35 per cent from 1,205,000 tons in 1991, to 776,000 tons in 1996. Nevertheless, such a level would represent a self-sufficiency level of 110 per cent. Such a decline was primarily a result of a 1.2 per cent rise in aggregate milk fat production over the period, while aggregate milk fat consumption was expected to rise by 7.2 per cent (about 100,000 tons annually). Much of the rise in consumption was accounted for by the United States and Japan. On the other hand, it was interesting to note that total milk fat consumption in Europe in 1996 was expected to be little changed from the 1991 level.

121. As regards milk fat balances in individual countries and regions of the OECD over the 1991-1996 period, the deficit in Japan was forecast to rise by about one fifth to 6,900 tons, while the deficit in the United States was expected to be -293,000 tons in 1996, compared with -76,000 in 1991. In Europe, the milk fat balance was expected to decline by almost one fourth in the EC and by 10 per cent in the other European countries. The balance was forecast to rise somewhat in New Zealand, in response to rising cow numbers; the opposite was the case for Australia.

122. The forecasts of production and consumption suggested that the next export availability of milk fat for the OECD area would decline by about one third in the medium term, reflecting in particular reduced milk fat balances in the EC, the United States and Japan. In Australia and the EC, export availabilities for butter were forecast to decline substantially; more moderate reductions were forecast for Canada and New Zealand, while a slight increase was expected in the United States. Export availabilities for cheese were forecast to rise in all major producing countries, in response to forecasts for continued strong international demand.

123. The Committees took note of the information provided and of comments made under this item.

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

124. The Committees reviewed the level of minimum export prices of products covered by the respective Protocols as required in the Arrangement. The Committees noted proposals by two delegations to modify the minimum export prices for milk powders and for butter. However, other delegations felt that more time was needed to reflect on the proposed changes and that

persisting uncertainties in the market made it difficult to take a decision at this time. The present price levels were consequently maintained and participants were urged to respect them.

125. The Committees took note of the comments made regarding the levels of the minimum export prices and agreed to revert to this matter at the next regular meetings of the Committees.

Relationship between minimum export prices fixed for pilot products

126. The Committees had a preliminary discussion on the relationship between minimum export prices fixed for pilot products. A comment was made that it might be appropriate to re-examine the ratio between the minimum export prices for butter oil and butter, some participants wanted, however, to reflect further on the matter.

127. The Committees noted the comments made and agreed to revert to the question at the next regular meetings. Participants wishing to furnish background notes in this connection were invited to do so well before the December meetings.

Oral report to the Council

128. 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 was later incorporated in the report of the Council (DPC/- series).

Date of next meetings

129. The next regular sessions of the Committees will be held consecutively on 9 and 10 December 1991, subject to confirmation by the secretariat.