

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

RESTRICTED
DPC/PTL/37
23 March 1994
Special Distribution

(94-0558)

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 Fifty-Sixth Session

20 December 1993

Introduction

1. The three Protocol Committees held a joint session on 20 December 1993 to discuss matters relating to the operation of the Protocols.

Adoption of the agenda

2. The following agenda was adopted for the joint session:

- A. Adoption of report on the fifty-fifth session
- B. Information required by the Committees:
 - (i) Replies to questionnaires:
 - Questionnaire 3: Certain cheeses
 - Questionnaire 1: Certain milk powders
 - Questionnaire 2: Milk fat
 - (ii) Summary tables
 - (iii) Other information
- C. Transactions other than normal commercial transactions
- D. Review of the market situation
- E. Sales under derogation
- F. Adoption of report to the Council
- G. Other business

Adoption of report on the fifty-fifth session

3. The report of the fifty-fifth session was adopted as amended and distributed in document DPC/PTL/34.

Information required by the Committees

(i) Replies to Questionnaires 1 to 3

4. The Committees reviewed the replies to Questionnaires 1 to 3 in respect of the third quarter of 1993. Participants were requested to provide all the relevant information concerning the fourth quarter of 1993 by 18 March 1994.

(ii) Summary tables

5. It was drawn to the attention of participants that statistics based on information provided up to the second quarter of 1993 in respect of milk fat, cheeses and milk powders had been incorporated in the Annex of the fourteenth annual dairy report "The World Market for Dairy Products 1993".

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 third quarter of 1993 and forecasts for the fourth quarter of 1993.

Transactions other than normal commercial transactions

7. The Committees noted that no new information had been received by the Secretariat under this heading.

Review of the market situation

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

European Community

9. The dairy situation in the European Community was currently firm and stable. The prices for butter and for skimmed milk powder were above their respective intervention levels. Milk deliveries during the third quarter of 1993 were above their 1992 levels in a number of member States, but fell below their year earlier levels during the last three months of 1993. Milk deliveries were 6 per cent below the quota level for the April to September 1993 period; or 4½ per cent below if the shortfall in the former German Democratic Republic were taken into account.

10. During the first nine months of 1993, production of butter was 0.3 per cent lower than in the same period of 1992, whereas skimmed milk powder production increased by 8.3 per cent and that of cheese rose by 0.8 per cent. The production of other milk powders was 2 to 3 per cent below their year earlier levels.

11. The consumption of liquid milk and fresh products in the European Community continued to increase by approximately 1 per cent per annum. Cheese consumption was increasing by 1 to 2 per cent annually, whereas that of butter had declined by 1 to 1½ per cent.

12. Butter prices remained quite strong in the second half of 1993, on average well above the intervention price of ECU 264/100 kgs. However, a slight price drop was expected following the

Christmas season. The intervention price as from 1 July 1994 had been fixed at 2 per cent below the current level. Skimmed milk powder prices had dropped below the intervention price in September and October, but by December were above the ECU 173/100 kgs. intervention price level. Intervention purchases of butter and skimmed milk powder, at 34 thousand tons and 11 thousand tons, respectively, were quite small in 1993. There was no change of either the aid levels nor the export refunds for butter or skimmed milk powder.

13. It had been proposed to change the minimum percentage of incorporation of skimmed milk powder in feed from 35 per cent to 50 per cent as of the beginning of 1994. However, in light of the firm market for skimmed milk powder and the relatively weak market for veal, no change would be made until at least 31 March 1994. During the first three quarters of 1993, the use of skimmed milk powder by both the calf feed and casein industries fell by 25 per cent below the corresponding level of 1992. The subsidized use of butter by the food industry, and especially by the pastry and ice-cream industry, increased by 8 or 9 per cent to a total of 390 to 395 thousand tons in 1993.

14. No sales of skimmed milk powder from intervention for calf feed were made in the last quarter of 1993, and no sales of butter for export purposes. Small quantities of cheese were sold from intervention. In mid-December, the European Commission accepted the first offer for the sale of 500 tons of intervention butter to the former Soviet Union market under the derogation of 22 June 1993. The minimum price for the sale was estimated at US\$1,050 per ton f.o.b., European Community borders.

15. Current intervention stocks (public and private) amounted to 211 thousand tons of butter, 33 thousand tons of skimmed milk powder and 117 thousand tons of cheese.

16. Exports of all products except skimmed milk powder, increased in 1993 relative to the comparable period of 1992. The changes in export volumes were as follows:

Fresh products	+ 9.0 %
Condensed milk	+ 4.0 %
Whole milk powder	+ 3.0 %
Butter	+ 9.0 %
Butter oil	+ 23.0 %
Cheese	+ 14.0 %
Skimmed milk powder	- 8.0 %

17. The world dairy market situation was strongly influenced by increased production in Oceania, the United States Dairy Export Incentive Program (DEIP), and the weak demand for butter in the former Soviet Union. There had also been important offers of skimmed milk powder from Eastern Europe. Deliveries in New Zealand during the first months of the 1993/94 dairy season, for example, were reportedly about 16 per cent higher than in the previous year. Both the volumes and bonuses granted under the DEIP program from January through November 1993 had been quite substantial and were having strong effects on the world market. These levels were:

<u>Product</u>	<u>DEIP volume</u> (<u>'000 tons</u>)	<u>DEIP bonuses (November)</u> (<u>US\$ per ton</u>)
Skimmed milk powder	117	890 - 1,090
Whole milk powder	15	1,260 - 1,400
Butter	8	530 - 580
Butter oil	5	1,039 - 1,062
Cheese	3	approximately 1,200

18. The European Community's offer prices were estimated as:

<u>Product</u>	<u>US\$ per ton, f.o.b.</u>
Butter	1,350 to 1,500
Butter oil	1,650 to 1,750
Skimmed milk powder	1,550 to 1,750
Whole milk powder	1,500 to 1,600
Cheese	1,800 to 1,950

Hungary

19. Milk production declined by 46 per cent since 1989, and the decline was expected to continue into 1994. Total production in 1993 was 1.5 million tons, from a dairy herd of 450-460 thousand head. This compared to output of 2.8 million tons from 645 thousand head in 1989. Milk production was expected to stabilize by the middle of the decade.

20. Production of skimmed milk powder declined by 46 per cent to 4.5 thousand tons in the first nine months of 1993 compared to 1992. Consumption fell by 55 per cent to 3.1 thousand tons. Consequently, skimmed milk powder stocks at the end of September 1993 were three times higher (at 1.8 thousand tons) than one year earlier. There were no significant imports or exports of skimmed milk powder.

21. Whole milk powder production declined by 5 per cent to 5.3 thousand tons. Consumption, however, increased from 1.3 to 3 thousand tons. Imports of whole milk powder doubled, whereas exports dropped to 1.5 thousand tons.

22. During the first nine months of 1993, butter production declined by 18 per cent to 10.8 thousand tons. Exports during that period amounted to 3.9 thousand tons. For the third quarter, the average export price was US\$1,500 per ton. Butter imports have been insignificant the past two years.

23. As dairy product prices continued to increase in the face of declining purchasing power, consumption of butter decreased by 24 per cent to 7.6 thousand tons in the first nine months of 1993. The cheaper prices of local and imported margarine further aggravated the decline in consumption of butter.

24. Cheese production increased by 9 per cent to 35.7 thousand tons in the first three quarters of the year. Exports remained unchanged, while imports increased by 3.2 thousand tons. In response to the larger variety of cheese available, consumption increased to 27.9 thousand tons. Between July and September 1993, the average export price of cheese was US\$1,730/ton while the import price level was US\$1,753/ton.

Japan

25. In September 1993, production was lower than for the comparable period of the previous year, for the first time since August 1991. In particular, production in Hokkaido, the principal producing area, declined by 0.7 per cent since July.

26. During the third quarter of 1993, demand for fresh drinking milk declined by 4.3 per cent compared to year earlier levels, largely as a result of poor weather conditions and the stagnation of the economy. In contrast, milk destined for processing continued to increase over previous year levels,

by 8.3 per cent. Consequently, butter production was 16.5 per cent, and skimmed milk powder production 8.4 per cent, greater than their respective previous year levels.

27. Demand for dairy products remained low. This resulted in a significant increase in butter stocks, in particular. To address this stock increase, measures to reduce the dairy herd and to encourage greater use of milk for calf feed were taken. Furthermore, the reference quantity for the control of production was revised in September, from 100.9 per cent to 98.5 per cent. Intervention purchases of butter were begun in August 1993.

28. The amount of cheese produced during the third quarter of 1993 was the same amount as produced during the third quarter of 1992, although the total level of production increased by 9.4 per cent since the end of September 1992. Production of natural cheese increased by 12.5 per cent while that of processed cheese increased by 8.2 per cent.

29. Imports of skimmed milk powder during the third quarter of 1993 declined by 19.6 per cent to 17.6 thousand tons. This was primarily used for animal feed. The import price for skimmed milk powder for human use increased by less than 1 per cent compared to the previous quarter. Imported skimmed milk powder for animal feed use declined by 2.2 per cent.

30. Butter imports amounted to 641 tons during the third quarter, at a price 10.3 per cent below the level of the second quarter. Imports of natural cheese declined by 5.2 per cent during the third quarter, while that of processed cheese dropped by 4.2 per cent. The import price of fresh cheese was slightly lower than during the previous quarter, whereas that for processed cheese increased by 7.1 per cent.

New Zealand

31. Milk production was now past its seasonal peak and the output was in line with earlier expectations. Due to favourable weather conditions, peak milk flows occurred two weeks earlier than normal, resulting in higher monthly production during the first half of the season. Production tapered off quickly in October and November as the weather turned cold and wet. Before November, rainfall had not exceeded average levels (except in June). Despite low ground water levels, pasture growth remained on par with previous years. Fertilizer applications compensated for any decline in growth due to moisture levels. Milk production for the first half of the season (June to November) was 350 kgs. on a milk solids basis. Total 1993/94 production was expected to reach 685 to 799 million kgs. of milk solids, a 5 to 7 per cent increase over the previous season. (Milk x 1.7394 = milk solids.)

32. The expected final price of manufacturing milk in the 1993/94 season was forecast in June to be NZ\$ 3.16 per kg. of milk solids (approximately NZ\$ 5.50/kg. of milk fat). This forecast was further revised to NZ\$ 3.00/kg. milk solids, in light of the declining expectations in the international market. This was about 8 per cent lower than the final 1992/93 season price of NZ\$ 3.25.

33. Prices for all milk powders and casein, as well as butter and butter oil, continued to fall since September. Only cheese prices remained steady. Currency factors contributed to the depressed world market signals. Since May, the value of the US dollar was strong relative to most European currencies. In addition, the currency instability in the European Community in 1993 added to the uncertainty in the international trading environment. The strength of the New Zealand dollar also had a negative effect on the terms of trade.

34. The derogation for the sale of butter to the former Soviet Union had not alleviated downward pressures on butter prices in other markets. Some exporters continued to sell butter and butter oil at or below the IDA minimum price levels. The large aid and concessionary transactions of butter

from the United States had not assisted efforts to restore market conditions in the former Soviet Union. Market prospects in the former Soviet Union had not improved, and there was no reason to expect any amelioration in the short term.

35. Competition remained intense in other key markets, particularly for butter, butter oil and cheese. Increased DEIP sales of skimmed milk powder from the United States filled large markets in South America and North Africa. Indicative export prices for October 1993 were:

<u>Product</u>	<u>US\$ per ton f.o.b.</u>
Butter	1,350
Butter oil	1,500
Skimmed milk powder	1,550
Whole milk powder	1,500
Cheese (Cheddar)	1,800
Casein	3,900

Butter and butter oil had been traded at levels below the IDA minimum in the former Soviet Union.

36. The outlook was for further improvements in the cheese market, in part because of reductions in European Community export restitutions for that product in March and June. For milk powder, the outlook remained stable with some signs of slight and gradual improvement in the first quarter of 1994. Butter and butter oil markets were expected to remain subdued, with weak demand and intense competition. The prevailing level of international market prices was below the IDA minima, prompting the need to find long-term solutions to correct the structural imbalance.

Poland

37. The dairy cow herd continued to decline in the third quarter of 1993 and was expected to reach 3.9 million at the end of the year, a 5 per cent drop compared to 1992. Milk production decreased by 3.2 per cent during 1993, to an estimated total of 12.3 billion litres. Purchases of milk by dairies increased by 5 per cent in the third quarter of 1993 compared with the same period of 1992. For the year as a whole, milk purchases were expected to reach 6.5 billion litres, a level 100 million litres below that of the previous year.

38. Skimmed milk powder production stagnated while production of whole milk powder increased only slightly compared to the previous year. There was a very limited increase also in the production of cheese and butter.

39. Consumption of butter continued to decline; in contrast, that of cream and milk desserts rose. The share of domestic products in the consumption of long-life milk, ice-cream and milk desserts rose during 1993, reflecting improved patterns of domestic supply.

40. Imports of most dairy products during the third quarter of 1993 were at levels similar to those of 1992. Exports of skimmed milk powder decreased by 85 per cent compared to the third quarter of 1992. As a result, stocks of skimmed milk powder rose to 47 thousand tons at the end of the quarter, causing financial difficulties for the industry. Butter stocks, at 25 thousand tons at the end of the third quarter, had also increased. This was largely the result of decreased consumption (due to increased margarine substitution) in the face of unchanged production levels. During the final quarter of 1993, excess stocks of skimmed milk powder and butter were sold.

41. Average export prices for Polish dairy products in the third quarter of 1993 were as follows:

<u>Product</u>	<u>US\$ per ton, f.o.b.</u>
Butter	1,293.00 (including sales below IDA minimum to FSU)
Skimmed milk powder	1,320.10
Whole milk powder	1,406.60
Cheese	2,179.10
Casein	2,994.00

Romania

42. Milk production in Romania continued to decline. Milk for consumption during the first nine months of 1993 totalled 20.2 million hectolitres, 28 per cent below the production level of the comparable period in 1992. During the same period, production of fresh milk products (3.5 per cent fat) reached 991 thousand hectolitres, a 14 per cent decline from the previous year. Butter production declined even more steeply, by almost 40 per cent to only 10.3 thousand tons. Production of cheese dropped to 30.7 thousand tons, 14.5 per cent below the level of the first three quarters of 1992.

43. Prices of dairy products in Romania increased by 105 per cent following the elimination of consumer subsidies.

South Africa

44. During the third quarter of 1993, the production of cheese increased by 18 per cent, while consumption dropped by 9 per cent. Exports of cheese remained at minimal levels. Butter production decreased by 2 per cent during the third quarter, and by 10 per cent cumulatively during the first nine months of 1993. Consumption, in contrast, increased slightly.

45. During the July to September 1993 period, production of skimmed milk powder increased to 3.3 thousand tons. A further increase was expected during the final quarter of the year, as production approached its cyclical high point in December and January. Consumption of skimmed milk powder increased slightly. In the third quarter of 1993, skimmed milk powder exports amounted to 1,000 tons.

46. Whole milk powder production increased by 10.4 per cent in the third quarter of 1993 to 2.9 thousand tons. Consumption also increased by 7.3 per cent in the third quarter, and a further increase was expected for the final three months.

Finland

47. By autumn of 1993, the cereals harvest in Finland was 30 per cent greater than in 1992 and of good quality. This should have a favourable influence on the amount of milk produced in the winter of 1993-94. During the first three quarters of 1993, milk deliveries were 1.4 per cent less than in 1992. Deliveries increased slightly in October. For 1993 as a whole, deliveries were expected to total 2,255 million litres. The forecast for 1994 deliveries was of 2,230 to 2,250 million litres.

48. Butter production during the first nine months of 1993 was 1.9 per cent less than during the corresponding period of 1992. For 1993, total butter production was expected to reach 55 thousand tons, a decrease of 2.5 per cent compared to 1992. Consumption in the first three quarters increased by 2.4 per cent, contrasting with a 3.9 per cent decrease experienced during the same period in 1992. Total consumption in 1993 was estimated at 39 thousand tons, up by 1.3 per cent.

49. Finland exported 8.7 thousand tons of butter during January to September 1993. Exports were estimated at 13 thousand tons in 1993. Stocks of butter in September were at 10.5 thousand tons. Forecasts for 1994 were for production of 55 thousand tons, consumption of 39 thousand tons and exports of 16 thousand tons.

50. Production of cheese during the first three quarters of 1993 was 68 thousand tons, slightly lower than for the corresponding period of 1992. Consumption was 2.1 per cent lower than for the same period of 1992. For the year as a whole, production was expected to reach 88 thousand tons and consumption 69 thousand tons. Cheese exports during the first nine months totalled 17 thousand tons (a 1 per cent decline), and were estimated to reach 23 thousand tons by the end of the year. Stocks in October were 10.5 thousand tons. In 1994, the forecasts were for cheese production of 86 thousand tons, consumption of 69 thousand tons and exports of 25 thousand tons.

51. Skimmed milk powder production in January to September 1993 increased by 0.9 per cent to 11.7 thousand tons. Exports during the period were 2.4 thousand tons, and stocks in October were 4 thousand tons. Total production for 1993 was expected to be 14 thousand tons, consumption also 14 thousand tons, and exports 3 thousand tons. Production was not expected to increase in 1994, although a slight decline was expected in consumption (to 12 thousand tons) and exports (to 2 thousand tons).

52. Production of whole milk powder declined by 84 per cent to only 400 tons in the first three quarters of 1993. 250 tons were exported. For the year as a whole, production was estimated at 600 tons, consumption at 750 tons and exports at 300 tons. Stocks in September were 400 tons. For 1994, production was expected to increase to 700 tons, while consumption could decline to 600 tons and exports to only 100 tons.

Norway

53. Milk deliveries during 1993 were expected to total 1,789 million litres, the same level as in 1992. This was higher than had previously been forecast, as the government scheme for buying back milk production quotas had not achieved the expected response.

54. During the first nine months of 1993, butter production amounted to 11.8 thousand tons, 4 per cent below the corresponding level in 1992. Consumption of butter declined by 5 per cent to 6.7 thousand tons. 5.3 thousand tons of butter had been exported through Switzerland, primarily to Morocco, Tunisia, Egypt and Bulgaria. There were no imports in 1993.

55. Cheese production in Norway increased by 5 per cent during the first three quarters of 1993 to 67.8 thousand tons. Consumption during the same period also increased, by 2.7 per cent to 42.9 thousand tons. Imports of cheese were 1.7 thousand tons in 1993, a decrease of 6.2 per cent. Exports decreased by 8.9 per cent. The 17.7 thousand tons exported were destined for the European Community, Japan, Australia, Canada and the United States.

56. The skimmed milk powder situation in Norway was normal. Exports during the first nine months of 1993 were 2.8 thousand tons, while there were no significant imports.

Sweden

57. Deliveries to dairies increased by 3.7 per cent in the first ten months of 1993 compared to the corresponding period of 1992. Total milk deliveries in 1993 were expected to increase by 4.8 per cent, due to increased yields.

58. Production of skimmed milk powder increased to 6.5 thousand tons in the third quarter of 1993, compared to 4.3 thousand tons in the same period of 1992. The increase continued in the fourth quarter, and total production in 1993 should exceed last year's level. Skimmed milk powder exports increased during the third quarter and total exports were expected to reach 10 thousand tons, compared to 4.7 thousand tons in 1992. Stocks increased during the third quarter, but at 4.5 thousand tons were still below last year's comparable level of 5.2 thousand tons. In December, the average Swedish export price for skimmed milk powder was US\$1,400 per ton, f.o.b. The destinations for exports were Malaysia, Thailand, Saudi Arabia, France, Canada, Egypt and Argentina.

59. During the third quarter of 1993, butter production increased to 11.7 thousand tons. This compared to 10.9 thousand tons in the corresponding period of 1992. Exports of butter increased during the third quarter and total exports of 20 thousand tons were expected for 1993 (compared to 16.7 thousand tons in 1992). Only small quantities of butter were exported in the fourth quarter. Swedish export prices for butter in early December were US\$1,350 per ton, f.o.b. Stocks at the end of September were 2.7 thousand tons, about 500 tons higher than in 1992.

60. Cheese production increased slightly in the third quarter of 1993 to 32 thousand tons, compared to 29.6 thousand tons for the same period of 1992. Total production in 1993 was expected to slightly exceed the 1992 level. Exports of cheese decreased during the third quarter and amounted to 600 tons. Stocks at the end of September were 37.9 thousand tons, the same level as one year earlier.

Switzerland

61. Milk deliveries increased by 1 per cent during the first ten months of 1993 compared to the same period of 1992. During the first three quarters of the year, production of cheese rose to 105 thousand tons, compared to 101 thousand tons a year earlier. Cheese imports also increased, by 12 per cent to 21.8 thousand tons, whereas exports fell by 7 per cent. The volume of exports totalled 44 thousand tons, compared to 47.4 thousand tons during the first nine months of 1992. Average Swiss export prices were of US\$6,500 to 6,900 per ton, f.o.b. Stock levels remained stable.

62. Skimmed milk powder production remained relatively stable at 20.5 thousand tons. Consumption also was unchanged. During the first nine months of 1993, exports of skimmed milk powder, at 7.5 thousand tons, exceeded those of the comparable period of 1992 (6.7 thousand tons). Export prices were in the range of US\$1,620 to US\$1,660 per ton, f.o.b. Stocks were 3.4 thousand tons at the end of September 1993, compared with 4.1 thousand tons one year earlier.

63. Production of butter declined slightly during the first three quarter of 1993 to 26.5 thousand tons, compared to 27.0 thousand tons a year earlier. Butter consumption also dropped slightly. Imports of butter were small, but at 2 thousand tons were double the level in 1992. The import price for butter was US\$1,571 to US\$1,596 per ton. Butter stocks remained stable at 5 thousand tons.

Argentina

64. Production of whole milk powder during the third quarter of 1993 remained at 17 thousand tons, the level achieved during the previous quarters. Nonetheless, this was 13.6 per cent below production during the comparable period of 1992. Consumption remained at year earlier levels. Exports continued to expand to 1.7 thousand tons during the third quarter (44 tons during the third quarter of 1992). Total exports for the first three quarters of 1993 were 370 per cent higher than in 1992. Export prices for whole milk powder were in the range of US\$2,140 to US\$3,890 per ton. During the third quarter of 1993, imports were only 200 tons, 96 per cent lower than in the third quarter of 1992. Total imports during the first nine months of 1993 declined by 77 per cent compared to their 1992 level.

65. Skimmed milk powder production fell 56 per cent in the third quarter of 1993 compared to the third quarter of 1992, to 2.8 thousand tons. For the first nine months of 1993, production was 25 per cent below year earlier levels. Consumption during the third quarter was 4.6 thousand tons, and for the first nine months totalled 15 thousand tons. This represented a 42 per cent and a 50 per cent drop, respectively, over the comparable periods of 1992. Exports, although only 413 tons in the third quarter, were much greater than for that period in 1992. For the first three quarters of 1993, exports totalled 6.4 thousand tons. Prices of exports ranged between US\$2,000 and US\$3,000 per ton. Imports of skimmed milk powder declined during the third quarter of 1993, compared to 1992, to 2.3 thousand tons. Imports during the first nine months reached only 5.6 thousand tons, 68 per cent less than during the comparable period of 1992.

66. During the third quarter of 1993, the production of cheese was 80 thousand tons, 14 per cent greater than for the comparable period of 1992. Cheese production for the first nine months of 1993 was 10 per cent greater than during the first three quarters of 1992. Consumption also grew, by 7.7 per cent to 237 thousand tons, during January-September 1993. For the third quarter alone, consumption reached 80.6 thousand tons, a 10 per cent increase over the comparable period of 1992. Exports during the third quarter were 756 tons (up 36 per cent), and for the first three quarters increased by 31 per cent. Prices for exports of cheese ranged from US\$3,000 to US\$4,400 per ton. Imports during the third quarter dropped to 1 thousand tons, 56 per cent below the third quarter 1992 level. For the first nine months of 1993, imports declined by 45 per cent below the 1992 level.

67. Production of butter continued to expand in 1993, with third quarter production at 12 thousand tons, 44 per cent greater than for the third quarter of 1992. Production during the first three quarters was 60 per cent greater than during the first nine months of 1992. Consumption also increased, by 37 per cent to 13.4 thousand tons in the third quarter of 1993, and by 20 per cent for the first nine months of the year. Exports, which were practically non-existent in 1992, totalled 920 tons during the first three quarters of 1993. Export prices were around US\$1,950 per ton. Imports dropped off steeply (79 per cent) to only 1.9 thousand tons January-September 1993, most of which (1.5 thousand tons) was imported during the third quarter.

Australia

68. Milk deliveries increased during the third quarter of 1993. Production of skimmed milk powder totalled 43.2 thousand tons during the July to September period, 46 per cent greater than for the same quarter of 1992. Stocks of skimmed milk powder decreased during the third quarter, from 55.8 thousand tons at the end of June to 30.3 thousand tons at the end of September 1993. This was, nonetheless, considerably higher than the 14 thousand ton stock level at the end of September 1992. Export prices for skimmed milk during the third quarter of 1993 were around US\$1,500 per ton, f.o.b.

69. Production of whole milk powder, on the other hand, declined by 2.8 per cent compared to the third quarter of 1992, to 17.3 thousand tons. Representative export prices averaged US\$1,400 per ton, f.o.b, during this period. Buttermilk production declined more steeply during the third quarter of 1993, to 2.4 thousand tons, 9 per cent below the level of the comparable period in 1992. Export prices averaged US\$1,375 per ton f.o.b. for the quarter.

70. Butter production during the July to September 1993 period reached 13.2 thousand tons, a 3.1 per cent increase over the 1992 level. Production of butter oil increased by 24 per cent compared to the third quarter of 1992, and reached 12.3 thousand tons during the third quarter of 1993. Export prices for butter and butter oil averaged US\$1,350 and US\$1,625, respectively, per ton, f.o.b.

71. Production of cheese during the third quarter of 1993 was 43.9 thousand tons, 4.2 per cent below the comparable level of 1992. Export prices for cheese averaged US\$1,800 per ton, f.o.b, during the third quarter of 1993.

Bulgaria

72. The difficulties resulting from the restructuring of the agricultural sector continued to have negative effects on the dairy sector of Bulgaria. The lack of subsidies or any other type of direct government support further exacerbated the problems, and no reversal of the situation is likely in the coming months. For the first nine month of 1993, there was no reported production of skimmed milk powder. Whole milk powder production was 1.3 thousand tons. During the same period, total imports were of 4.1 thousand tons, including 2.7 thousand tons of skimmed milk powder and 1.7 thousand tons of whole milk powder. The principal suppliers of skimmed milk powder were Poland, Hungary, Macedonia, France, Greece and Sweden, while the whole milk powder was imported primarily from Macedonia and former Soviet Union. There was no production, or trade, of buttermilk powder during the first three quarters of 1993.

73. The production of cheese, the most important dairy product in Bulgaria, continued its steep downward trend. During the first nine months of 1993, production totalled only 52.7 thousand tons, which is less than 72 per cent of the comparable 1992 production and less than 68 per cent of the comparable 1991 production. Cheese imports, in contrast, rapidly increased from zero in 1991 (first three quarters) to 400 tons in 1992 and 7.9 thousand tons in 1993. The major suppliers of cheese, in 1993, were Lithuania, Norway, Estonia, Poland, France and Denmark.

74. Exports of cheese continued to decline and for the first nine months of 1993 were less than 48 per cent of the comparable level of 1992, and less than 38 per cent of that of 1991. The major destinations for Bulgarian cheese exports were Germany, Greece, Lebanon, the United States, Austria and Macedonia. The average export price was US\$2,735 per ton.

75. Butter production remained very low at 3.7 thousand tons during the first three quarters of 1993. This was 52 per cent of the 1992 butter production for that period, and 35 per cent of the comparable 1991 production. Exports of butter during the third quarter of 1993 were of 300 tons, to Azerbaijan and Greece. For the first three quarters of 1993, imports totalled 1.3 thousand tons, primarily from Germany, the Czech Republic, Estonia, France and Poland.

Economic Commission for Europe

76. The observer from the Economic Commission for Europe reported that milk output in the Commonwealth of Independent States (CIS) was estimated to have declined by 7 to 8 per cent during 1993. Poor feeding conditions, in quality as well as quantity, lower cow numbers and reduced milk yields were major causes of the decline. The situation was further exacerbated by rising production costs and decreased demand for dairy products, because of rising prices. In the Russian Federation, milk production was believed to have declined by 10 per cent in 1993.

77. Butter production was forecast to have dropped by 10 per cent in the CIS during the year, including a decline of 5 to 6 per cent in the Russian Federation. Production of cheese dropped by 8 per cent.

Sales under derogation

78. The Committee of the Protocol Regarding Certain Cheeses took note of the notification by New Zealand of sales under Article 7:2 of the Protocol (DPC/PTL/W/101).

79. The Committee of the Protocol Regarding Certain Milk Powders took note of the notification by Poland of sales under Article 3:5 of the Protocol (DPC/PTL/W/108). The representative of New Zealand informed the Committee of its intention to make sales of skimmed milk powder for feed use under the provisions of Article 3:5. Five sales, totalling 2,254 tons, were scheduled for delivery to Japan during the first quarter of 1994 (DPC/PTL/W/115).

80. With respect to sales of butter and butter oil under the 22 June 1993 Decision by the Committee of the Protocol Regarding Milk Fat, the Committee took note of the notifications to date as summarized by the Secretariat in DPC//PTL/W/114. The representatives of Hungary and of Australia provided information with respect to the prices at which their sales under derogation had been made (DPC/PTL/W/114/Rev.1). The representative of Australia indicated that the relatively low price of the Australian butter sold under derogation was due to the discount normally given to salted butter and to the fact that a large portion of the total was of aged butter. For the fresh butter involved in the sale, the price was similar to that of other reported sales under the derogation.

81. The Committee also considered the proposal by Australia for a temporary suspension of the minimum price for milk fats (DPC/W/132). The representative of Australia highlighted the need for a stronger solution than had been tried in the past to deal with the difficult structural problems facing the world milk fat market. He noted that in the face of a global and continuing decline in per capita consumption of butter and butter oil, short-term derogations for sales under the IDA minima did not provide a long-term solution. Instead, the derogations created an inequitable two-price system which led to deviations of sales.

82. Other participants recognized the seriousness of the problems facing the milk fats market and the need for finding long-term solutions to the problems. Some stressed the need to improve the mechanisms for monitoring compliance with the IDA minima. Others expressed concern with the suspension of some of the basic elements of the International Dairy Arrangement itself. Most indicated the need for more time to reflect on the issue, and agreed to revert to it at the next regular meetings of the Protocol Committees.

83. In light of the continuing seriousness of the situation facing the world butterfat market, and in the absence of any immediate decision on a long-term solution, the Committee of the Protocol Regarding Milk Fats *agreed* to extend the derogation provided under the Decision of 22 June 1993 for sales contracts concluded before 31 March 1994 and for delivery before 30 June 1994. The total quantity of sales permitted under the derogation remains unchanged at 50,000 tons of butter or butter oil per participant, and all other conditions regarding the sales remain the same (DPC/PTL/36).

Report by the Chairman of the Protocol Committees to the Council

84. The Committees agreed that a summary report of the discussions at the present session would be submitted to the Council. This report was subsequently circulated as DPC/PTL/35.

Revision of the International Dairy Arrangement

85. The Secretariat brought to the attention of participants that the full text of the International Dairy Arrangement (IDA) would be included in Annex 4 of the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations for signature by Ministers at Marrakesh in

April 1994. Some minor revisions of the IDA text were necessary, to bring its references up to date and to include modifications which had already been accepted, such as the change to the Harmonized System nomenclature. Furthermore, as the Final Act package would be subject to the ratification procedures of contracting parties, the opportunity also existed to make other textual or substantive changes to the IDA, if participants so desired. It was agreed that an informal meeting of the Council would be convened in January 1994 to discuss the revision of the International Dairy Arrangement.

Date of the next meetings

86. The next regular meetings of the Committees will be held on 21-22 March 1994, subject to confirmation by the Secretariat.