

GENERAL AGREEMENT ON

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TARIFFS AND TRADE

International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN MILK POWDERS

COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN CHEESES

Draft Reports of Thirty-Fourth Session

(20-22 June 1988)

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

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REPORT OF THE JOINT MEETING OF THE THREE PROTOCOL COMMITTEES

Thirty-Fourth Session

Introduction

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

Adoption of the Agenda

2. The Committees adopted the following agenda:

A. Adoption of Report on the Thirty-Third Session

B. Information required by the Committee:

(I) Replies to Questionnaires (respectively
Questionnaire 1: Certain Milk Powders
Questionnaire 2: Milk Fat and
Questionnaire 3: Certain Cheeses)

(II) Summary Tables

(III) Other Information

C. Sales under Derogations

D. Review of the Market Situation for Products Covered by the Protocol

E. Adoption of Report to the Council

F. Other Business.

Adoption of Reports on the Thirty-Third Session

3. The reports on the thirty-third sessions were adopted with certain amendments by the three Protocol Committees and distributed as documents DPC/F/56, DPC/C/51 AND DPC/P/53 respectively.

Information required by the Committees

(a) Replies to Questionnaires 1 to 3

4. The Committees reviewed the replies to Questionnaires 1 to 3 and requested participants who had not yet communicated such information in respect of the first quarter of 1988 to do so without further delay. They were also asked to submit information regarding the second quarter of 1988 by 15 September 1988 at the latest.

(b) Summary Tables

5. The Committees reviewed the summary tables based on information provided by participants in Tables A and B of the Questionnaires in respect of the first quarter of 1988 and issued respectively in documents DPC/P/W/34/Rev.2, DPC/F/W/36/Rev.2 and DPC/C/W/35/Rev.2.

(c) Other Information

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

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

8. The secretariat drew the attention of the participants to the possible effects of drought in the United States on the world dairy situation. Of the ten major dairy states only New York State had escaped persistent dry conditions and thus 80 per cent of the United States milk production was affected. Steps were being taken to provide adequate feed supplies at reasonable costs to drought stricken States, but feed prices were likely to go up next year if drought conditions continued to persist. Milk production and deliveries during the first quarter of 1988 were 2.5 to 3.0 per cent above those in the corresponding period of the previous year, and in the second quarter were also likely to aggregate 2 per cent higher than in 1987. The seasonal peak of production was reached in May, after which deliveries were beginning to taper off. However, a rough estimate indicated that total milk deliveries in 1988 would still be 2 per cent higher than in 1987, despite higher feed costs. Higher milk deliveries were likely to lead to some increase in United States butter production, but stocks had continued to be low and were at a level of less than half their average level for 1981-83. Cheese stocks were also low in spite of record high production in the first half of 1988. The production of skimmed milk powder had slightly recovered, but was still three-fourths of its 1981-83 level and stocks were very low. Wholesale prices of dairy products were relatively lower than their level in 1987, but the skimmed milk powder prices were moderately increasing. Dairy exports were likely to remain low, while imports might increase to some extent as a result of some increase in domestic demand.

9. Expressing his appreciation for a preliminary appraisal of the United States dairy situation by the secretariat, the EC representative underlined the need for a more global approach to international dairy problems and a closer co-operation among all the major dairy producing countries. In this connection, he suggested inviting Austria and the United States as observers to the IDA's next meeting in September.

10. The Australian representative expressed concern about the linkage of the EC's suggestion to the EC's proposal for emergency measures in the Uruguay Round and recalled the circumstances in which the United States had left the Arrangement. He noted that the United States would be welcome to attend but that it did not need an invitation to do so, since as a contracting party it had the right to be an observer. The Finnish delegate observed that only the International Dairy Council was competent to invite the United States to the September meeting in the event that the drought conditions persisted. Some informal consultations were, however, necessary before a formal invitation was extended to them in September. This view was supported by the delegate of Switzerland who suggested that a distinction should be made between the two issues of inviting the United States merely to explain the consequences of drought or to attend the IDA meetings as a regular observer. While it was desirable to obtain the largest possible participation in the Arrangement, the matter merited further consideration in the Council.

11. The observer from Canada added that drought conditions in his country existed only in the Western part where dairy production was not really concentrated. The Eastern part, which was responsible for more than 80 per cent of total dairy production, was not affected and thus the overall effect was only marginal. He would keep the Committees fully informed of future developments if the situation so warranted.

12. Concluding the discussion, the Chairman observed that further deliberations on the United States drought conditions were necessary in view of its repercussions on the world dairy trade. It was too early to have a clear perspective of the situation at this stage. The matter could be more usefully discussed at the September meeting. The question of inviting the United States as an observer was, however, within the competence of the IDA Council and therefore it would be retained as an agenda item for its next meeting in September.

Review of the Market Situation for Products Covered by the Protocols

13. Discussing the main effects of the EEC's recent agricultural policy reforms, the representative of the European Communities particularly underlined the fact that between 1983 and 1989 the number of dairy herd was likely to be reduced by 20 per cent or by 5 million head, while the decline in production was expected to be 11.3 per cent. Butter production was expected to be down by 600,000 tons during the same period. Public butter stocks, which were 1.3 million tons in 1986, were expected to decline to less than 300,000 tons by the end of 1988. It was, however, regrettable that the EEC's strenuous efforts to curtail production and stocks were not matched by similar efforts by other major producing countries. In fact, they had substantially increased their production levels and strengthened their price support programmes to the detriment of the world dairy situation. (See DPC/W/81 for more details.)

14. More specifically, the EC spokesman added that as a result of various measures taken the number of dairy cows at the end of 1987 at 24.10 million head was expected to drop by 4.4 per cent to 23.05 million head at the end of 1988. The net loss in numbers since 1983 had totalled 3.85 million. Milk production, which had totalled 111.6 million tons in 1987, was expected to be reduced to 108.5 million tons or by 2.8 per cent in 1988. Milk deliveries were likely to drop by 2.6 per cent from 101.4 million tons in 1987 to 98.8 million tons in 1988. As a result of a decline in milk production, butter output in 1988 would fall to 1,745 thousand tons from 1,899 thousand tons in 1987, showing a drop of 8.2 per cent. The output of skimmed milk powder in 1988 was expected to show a drop of 12 per cent from 1,647 thousand tons to 1,452 thousand tons. The drop in the production of whole milk powder would be only 1 per cent; i.e. from 885 thousand tons in 1987 to 878 thousand tons in 1988. Cheese production, however, was expected to increase by 2 per cent from 4,621 thousand tons in 1987 to 4,700 thousand tons in 1988. Output of condensed milk, which had been falling for the past four consecutive years, also showed a recovery of 5 per cent in 1988. As regards stocks, physical stocks of butter on 30 April 1988 amounted to 568 thousand tons, but the non-committed stocks

were lower than that. Cheese stocks held in private storage system, which was financed by the Community's funds, totalled 120 thousand tons. Average export prices for cheese were reckoned at US\$1,400 per ton f.o.b.; for butter a range of US\$1,150-1,200-1,300 per ton f.o.b (as against some offers at US\$1,100 per ton by some countries); for butteroil US\$1,350-1,400-1,500 per ton f.o.b.; skimmed milk powder US\$1,500-1,700 per ton f.o.b. and whole milk powder US\$1,500 per ton f.o.b.

15. Replying to a question by New Zealand, he confirmed that butter stocks, totalling 568 thousand tons on 30 April 1988, could very well be reduced to 250-350 thousand tons even without the special sales to the USSR, provided the EC's special disposal programmes were successfully implemented. In reply to the Finnish question, he acknowledged a discrepancy in the figures of milk production, but asserted that whatever the figures the clamping of the quota system in effect led to a blocking of the EC's milk production until March 1992. It was unfortunate, however, that a reduction in the EC's milk production of 5.5 per cent did not coincide with a reduction elsewhere. As to the age structure of butter stocks, he indicated that of the total 568,000 tons of non-committed physical stocks on 30 April 1988, some 250,000 tons was eighteen-month-old butter. In response to an Australian comment that production levels were better regulated if market forces were allowed to operate and distortions in international trade could be avoided if support levels were reduced, he argued that necessary support had to be provided when a multitude of EC dairy producers, processors and exporters were confronted with unfair competition on the international market.

16. The representative of Japan informed the Committees that his Government had further reduced the guaranteed price of raw milk for processing by 3.5 per cent in March 1988 following the earlier reductions in 1986 and 1987. The stabilization indicative price of butter, skimmed milk powder, sweetened condensed whole milk and skimmed milk were reduced respectively by 1.8 per cent, 1.1 per cent, 1.6 per cent and 1.6 per cent in 1988. The standard transaction price was lowered by 1.7 per cent. The

unit deficiency payment, reflecting the difference between the guaranteed price and the standard transaction price was reduced by 1.76 yen/kg. The quantity eligible for deficiency payment in 1988 was determined to be 2.25 million tons, 0.15 million tons more than in 1987.

17. Milk production in 1987, subject to production controls, was 0.9 per cent above the level in 1986 due to increased demand for drinking milk. While production of drinking milk increased by 5.9 per cent, production of milk for processing purposes decreased by 6.4 per cent. The number of cows in 1986 at 1,315,000 head was reduced to 1,278,000 in 1987 and further to 1,253,000 head in 1988.

18. As regards skimmed milk powder, production during the fiscal year 1987 was 9.5 per cent below the level of 1986. Imports of skimmed milk powder in 1987 at 92,000 tons were 2 per cent higher than the 1986 level, due to an increase in imports for animal feed purposes. The average import price in 1987 was US\$779 per ton c.i.f. for animal feed purposes and US\$1,043 per ton c.i.f. for human consumption purposes. With a reduction in milk production for processing, stocks of skimmed milk powder got depleted and LIPC had to import 4,000 tons to prevent the prices from rising.

19. Butter production during the fiscal year 1987 was 14.3 per cent below the level of 1986. As a result, excessive stocks were liquidated. Imports in 1987 were 14.9 per cent more than in 1986. Average import price in 1987 was US\$1,520 per ton, but in more recent months it came down to US\$1,324-1,483 per ton c.i.f.

20. Cheese output in 1987 was 6.1 per cent more than in 1986. Imports of natural cheese were, however, 16 per cent higher than in 1986. The average import price of natural cheese during 1987 was US\$1,791 per ton c.i.f., 8.7 per cent higher than the level in 1986. In more recent months, however, the prices ranged between US\$1,932 and US\$2,016 per ton c.i.f.

21. In response to a question by the representative of the Community whether a drop in Japanese dairy production was a result of cyclical factors or deliberate policy measures, he confirmed that strict production controls had resulted in a decrease in production. As to the question of whether the Japanese Government would increase dairy import quotas following the United States/Japan Panel Decision, he declined to make any comments at that stage on the future course of action. In reply to another question of what type of highly expensive cheese was being imported from the United States, he repeated what he had said earlier that it was Mint Parmesan cheese at an average import price of US\$9,340 per ton.

22. The representative of New Zealand observed that the international dairy situation remained satisfactory except for butter. Difficulties in this sector were, however, not insurmountable provided that the supply restraint discipline recently followed by the two major dairy producers - the EEC and the United States - was continued in the future also. The international dairy market was very volatile in response to marginal changes in these two big producing regions and also to changes in the USSR importing patterns. The United States adopted restraint policies in 1983 when the support price was reduced by 19 per cent or by nearly one fifth. In 1985, milk production began to soar again as a result of the termination of the Milk Diversion Program. But with the implementation of the Dairy Termination Program, almost 5.5 million tons of milk was bought out, which was roughly the volume of drop in the EC when quotas were introduced in 1984. A drop of 5 million tons in milk production in both these regions was roughly equivalent to New Zealand's annual milk production. This clearly demonstrated that administrative political decisions could in one year wipe out an equivalent of the entire milk production of his country. Thus these two regions had a far-reaching impact on world trade in relation to the absolute level of production in his country. The EC had chosen to apply the method of quota reduction because the alternative method of price reduction would have been more difficult to implement. His country followed the second alternative in spite of the difficulties involved.

23. Commenting on the situation in the three dairy sectors, he noted that prices of skimmed milk powders had firmed up at a figure of around US\$1,600 per ton f.o.b. The average export price of whole milk powder ranged between US\$1,600 and US\$1,700 per ton f.o.b. Casein was US\$4,300 per ton f.o.b., and Cheddar cheese export prices were between US\$1,652 and US\$1,800 per ton f.o.b. Excepting butter, for which the market was only slowly improving, the general dairy situation had considerably ameliorated as a result of the self restraint policies followed by the two major dairy producers. In the butter sector, there was some unfinished business to be considered. At the moment, informal contacts with other delegations had revealed that there was no consensus on the need for an immediate increase in butter prices, but the question should be reconsidered at the next meeting in September in the light of the latest market conditions.

24. The Polish delegate stated that milk production in his country had been adversely affected by unfavourable weather conditions. The decline in production was not fully offset by an increase in productivity. The climatic conditions were still bad in 1988 and milk output was likely to be below the level of 1987. Exports of skimmed milk powder were estimated to be around 3,200 tons in 1988, which would be below the level of the last several years. Imports of butter in the first quarter of 1988 were relatively higher although total imports during 1988 were not expected to exceed the level of 1987. Per capita cheese consumption was increasing and the trend was likely to continue with improved milk processing methods recently adopted in his country.

25. The representative of South Africa said that there was a shortage of milk as a result of low milk production in his country. The dairy industry had been distributing milk to the cheese industry in order to maintain stock levels. As regards skimmed milk powder, production during the first quarter of 1988 was higher than anticipated by the South African Dairy Board. However, a lower production of 2,109 tons was expected in the second quarter of 1988. The consumption of skimmed milk powder was slightly higher than expected for the first quarter and a further increase to 4,210 tons was anticipated for the second quarter of 1988. While no

exports were envisaged, imports of 2,349 tons were expected during the second quarter. Most of it had already been imported. Stocks were expected to reach a level of 4,747 tons by the end of June 1988. Production of whole milk powder during the first quarter of 1988 was 2,426 tons, which was slightly lower than anticipated. Imports were still necessary to provide for the market's needs. A total supply of 3,599 tons was anticipated for the second quarter, including imports of 1,393 tons. Consumption of whole milk powder during the first quarter of 1988 was as the SADB expected it to be. For the second quarter, consumption of 2,544 tons was anticipated. No exports were anticipated during the second quarter. At the end of June 1988 stocks were expected to reach a level of 3,147 tons which was higher than 2,092 tons at the end of March 1988. As regards butter, production during the second quarter at 2,055 tons compared unfavourably with a level of 3,498 tons in the first quarter. Domestic consumption was expected to be 4,585 tons. Imports during the second quarter were anticipated to be 1,012 tons, while exports would be negligible. Thus, stocks would be reduced to a level of 1,410 tons at the end of June. Finally, the output of cheese (Gouda and Cheddar) in the second quarter was estimated at 6,747 tons. The expected consumption of cheese during this period would be lower than in the first quarter of 1988. Total consumption was reckoned to be 9,366 tons in the second quarter. Imports of Cheddar cheese totalled 3,567 tons in the second quarter. Stocks of cheese were thus expected to be slightly lower at 2,670 tons for Gouda and slightly higher at 8,940 tons for Cheddar at the end of June 1988.

26. The Finnish delegate added that data on production, consumption and trade were contained in replies to questionnaires 1-3. Forecasts concerning 1988 were made in relation to estimated milk deliveries of 2,590-2,610 million litres. There was some uncertainty, however, regarding these forecasts due to the introduction this year of the new Dairy Cessation Scheme. Under this Scheme, claims totalling four times the amount made available for this programme in the budget made it necessary to draw priorities. In practice, claims could be made by farmers between fifty-five and sixty-four years of age with a serious handicap or

disability who would discontinue production in exchange for FIM 20/litre of milk for five years. On an annual basis, 100 million litres of milk were expected to be withdrawn from production. As regards average export prices, he indicated that skimmed milk powder was reckoned at US\$1,285 per ton f.o.b.; whole milk powder at US\$1,265 per ton f.o.b.; butter at US\$1,135 per ton f.o.b. and cheese at US\$1,305 per ton f.o.b.

27. The Norwegian delegate informed that total milk deliveries in the first three months of 1988 were 0.7 per cent lower than in the same period of the previous year, mainly due to a tightening of the quota system. A further decrease was expected in the coming months. As regard butter, the production level in the first quarter corresponded to the level of the same period of last year, and stocks were also at the same level. Domestic consumption of butter was, however, 20 per cent lower in the first quarter compared to its level last year, due to a nutritional campaign to reduce fat intake. Exports were 50 per cent up compared to their level in the first quarter of 1987. The production of cheese was slightly down in the first quarter compared to its level last year, but consumption was 2.5 per cent higher in the same period. Stocks of cheese at the beginning of April were 11 per cent lower than their level last year. Exports were 16 per cent higher, but this figure also concealed some increase due to some delay in planned deliveries last year. As regards skimmed milk powder, although the bulk of it was returned to producers as animal feed, small quantities were also exported during the first three months of 1988 due to improved market conditions.

28. The representative of Sweden said that milk production was expected to decline somewhat in 1988. The decline was a result of the voluntary two-price system introduced in 1985 for a three-year trial period. The system was likely to be discontinued with effect from 1 July 1989 in the pursuit of the Government's desire to deregulate this sector.

29. As regards skimmed milk powder, he noted a decrease in both production and exports during the first quarter of 1988 as compared to their levels in the same period of last year. Domestic consumption, however, increased

during this period. Forecasts for 1988 indicated that both production and consumption would remain stable at their respective levels of last year. The average export price for skimmed milk powder in June 1988 was US\$1,250 per ton f.o.b. Output and consumption of butter during the first quarter slightly increased compared to their levels last year. Exports, however, fell relatively. In the second quarter of 1988, only small quantities of butter had been exported and consequently stocks had increased. The main reason for smaller exports of butter was that buyers were not prepared to pay even the current GATT minimum price of US\$1,100 per ton f.o.b. for Swedish butter.

30. The representative of Switzerland said that milk deliveries during the first quarter of 1988 were higher than in the same period of 1987, but there was a drop of 1 per cent during April-May compared to the level in the corresponding period of 1987. In regard to skimmed milk powder, production at 6,135 tons was 4.6 per cent lower than its level of 6,428 tons in the same three months of 1987. Exports dropped to their lowest level of 27 tons and stocks were relatively low. Exports were now picking up and had reached a level of 742 tons. Export prices aggregated higher than the GATT minimum prices. As regards whole milk powder, production at 3,783 tons in the first quarter compared favourably with a level of 3,162 tons in the corresponding quarter of 1987, i.e., 19.6 per cent higher. Imports reached a level of 561 tons, while exports totalled 127 tons. Stocks had increased. Import prices averaged US\$1,383 per ton. As regards butter, production at 8,745 tons was 1.4 per cent more than in the first quarter of 1987. Imports had increased considerably by 28 per cent, from 2,356 tons to 3,019 tons, during the first quarter of 1988. Consumption had increased by about 5 per cent and stocks were stable. The average import price for good quality butter was US\$1,300 per ton. Finally, as regards cheese, production during 1987 dropped by 2.5 per cent, but increased by 3 per cent during the first quarter of 1988 compared to its corresponding level in the previous year. Imports during the first quarter increased by 4.9 per cent and exports dropped by 5.3 per cent. Consumption of cheeses increased by more than 10 per cent, but stocks also

increased in the first quarter. In reply to a question from the EC concerning the main sources of the high-quality butter, he indicated that during the first quarter of 1988 it came from the Federal Republic of Germany (1,300 tons), the Netherlands (140 tons), Sweden (200 tons) and other countries (100 tons).

31. The representative of Uruguay informed the Committees that skimmed milk powder production in the first quarter of 1988 increased by 1,700-1,900 tons as compared to the level in the corresponding period of 1987. Exports went up from 800 tons in 1987 to 3,100 tons in the first quarter of 1988. Consumption doubled during this period. Stocks dropped from 1,860 tons at the beginning of the first quarter of this year to 900 tons at the end of the same quarter. Production of whole milk powder went down from 800 tons to 529 tons for 1988, and consumption amounted to 400 tons during the first quarter. Production of butter increased during the first quarter of 1988 as compared to the level of the first three months of 1987 from 3,000 to 3,300 tons. Exports dropped to one third of their level and consumption remained unchanged. Stocks of butter went from 3,500 tons at the beginning of the year to 5,800 tons at the end of the first quarter. Production of cheeses dropped from 3,400 tons to 3,000 tons. Exports during the first quarter amounted to 600 tons and consumption dropped from 2,600 tons to 2,200 tons for the first quarter. Stocks at the beginning of the first quarter were 2,800 tons, but they increased to 3,000 tons at the end of the quarter.

32. In reply to an EC question, he said that both hard and soft cheeses with local denominations were produced in Uruguay. As regards average export prices, skimmed milk powder was US\$1,160 per ton f.o.b.; whole milk powder US\$1,525 per ton f.o.b.; butteroil US\$1,700 per ton f.o.b. and butter US\$1,300 per ton f.o.b.

33. The representative of Argentina said that milk production during 1988 increased by 6 per cent due mainly to an increase in productivity. Despite a decrease in the number of dairy cows and the number of farms over the

last ten years, overall production had increased. In the initial months of 1988, production went up even more rapidly, but later took a dip due to drought in many production areas and a lot of frost in the winter. Per capita consumption over the past four years grew from 179 litres to 202 litres per year in 1987. In more recent months, consumption had declined due to a drop in incomes and inflation. As regards milk powders, production of whole milk powder increased by 6 per cent in 1987 compared to the level in the previous year. Imports also increased but there was a decline in exports. Consumption had increased and there was a slight increase in stocks. The outlook for whole milk powder in 1988 was a growth in the exportable balance. A similar situation existed for skimmed milk powders. In 1987, imports increased but exports dropped. Internal consumption fell and stocks went up. Production of cheese increased in 1987 as compared to the level in 1986. Imports rose, but exports fell. The situation was changing in 1988 with growing exports. Consumption in 1987 was higher than in 1986 by 7.3 per cent and stocks by the end of the year increased by 23 per cent due to a traditional two-month lag in the export of cheeses. Production of butter also increased in 1987 by 6.6 per cent. Imports increased, but there was a drop in exports. Consumption of butter increased and consequently the final stocks shrank. Domestic producer prices, though showing some increase in nominal terms in 1988, remained stagnant in real terms due to inflation. The domestic price per litre of milk (with fat content of 3.3 per cent) was US10 cents at the commercial trading rate, but only US8 cents per litre at the actual financial exchange rate.

34. The delegate of Australia stated that milk production in the first quarter of 1988 at 1,475 million litres was 3.8 per cent below the level of the corresponding period in the 1986/87 season, when it was 1,534 million litres. Reduced milk output was due to drought conditions in the major dairy producing areas. However, cumulative milk production for 1987/88 of 5,212 million litres was 0.7 per cent more than the level of 5,174 million litres in the same period in 1986/87. Production in 1987/88 was now

forecast at 6,155 million litres, slightly below the 1986/87 level of 6,176 million litres, due principally to a reduction in the number of cows and farms. Cow numbers on 31 March 1988 were 1.71 million head compared with 1.73 million head on 31 March 1987.

35. As regards skimmed milk powder, total production in the January-March 1988 period was 21.8 thousand tons or 19.9 per cent lower than the level of 27.2 thousand tons in the corresponding period of the 1986/87 season. While skimmed milk powder production decreased from 25.4 thousand tons to 20.3 thousand tons, butter milk production fell from 1.8 thousand tons to 1.5 thousand tons due to widespread drought. Estimated production of skimmed milk powder/butter milk powder for 1987/88 was 134.0 thousand tons as against 136.9 thousand tons in 1986/87. Of this, skimmed milk powder production was expected to decrease from 128.5 thousand tons to 126.0 thousand tons, whereas butter milk production was expected to be down from 8.4 thousand tons to 8.0 thousand tons. Domestic sales of these two products in 1987/88 were expected to decrease by 2.3 per cent from 44.3 thousand tons in 1986/87 to around 43.0 thousand tons in 1987/88. Exports in 1986/87 were about 90.2 thousand tons (skimmed milk powder 82.7 thousand tons and butter milk powder 7.5 thousand tons). In 1987/88, exports were forecast at about 108.2 thousand tons (skimmed milk powder 98.5 thousand tons and butter milk powder 9.7 thousand tons). Closing stocks of skimmed milk powder for 1987/88 were anticipated to be 8.3 thousand tons. As far as the world situation was concerned, the international market for skimmed milk powder was strengthening. Current prices were in the range of US\$1,550-1,600 per ton f.o.b. as against the increased GATT minimum price of US\$900 per ton f.o.b. on 23 March 1988. Supplies were expected to remain very tight for the remainder of 1987/88 and prices were continuing to rise. Stocks of fresh skimmed milk powder from the EC were in a very tight position as current stocks were at least two years old and had little market demand. Both Australia and New Zealand had committed their entire export availability for the remainder of 1987/88.

36. As regards the Australian whole milk powder situation, production during January-March 1988 period at 19.5 thousand tons was 4.1 per cent above that for the corresponding period in 1987. It was forecast to remain about the same in 1987/88 at 65.0 thousand tons as against 65.3 thousand tons in 1986/87. Domestic sales of whole milk powder were expected to decrease by about 3.7 per cent in 1987/88 to 13.0 thousand tons as against 13.5 thousand tons in 1986/87. Exports in 1987/88 were forecast at 52.0 thousand tons as against 51.5 thousand tons in 1986/87. Closing stocks for 1987/88 were anticipated to total 7.3 thousand tons. As far as the world situation was concerned, recent quotes for whole milk powder were in the vicinity of US\$1,550-US\$1,600 per ton f.o.b. as against the GATT minimum price of US\$1,000 per ton f.o.b. With the cessation of intervention buying of butter by the EC, significant quantities of milk had been diverted from butter to whole milk production. As a result, there had been some increase in world supplies. However, due to continued strong demand, prices had not been adversely affected. Both Australia and New Zealand had committed their entire export availability for the remainder of 1987/88.

37. The Australian situation with regard to milk fat was that production of butter/butteroil (commercial butter equivalent) in the first quarter of 1988 at 19.9 thousand tons was 17.3 per cent below the output of 24.1 thousand tons in the corresponding period in 1987, mainly due to increased production of non-Cheddar cheese and whole milk powder. Butter/butteroil production for 1987/88 was estimated at 100 thousand tons, 3.7 per cent below the previous year's production of 103.8 thousand tons. Domestic sales were expected to increase marginally from 56.2 thousand tons in 1986/87 to 57.0 thousand tons. Exports were expected to total 55 thousand tons, leaving closing stocks of around 19.9 thousand tons, as against actual exports of 35 thousand tons in 1986/87. The increase reflected improved prospects for sales during the coming year. The international market had firmed with prices of both butter and anhydrous milk fat at their respective IDA minimum prices of US\$1,100 and US\$1,325. However, isolated spot sales of fresh EC butter had been reported at US\$1,130 per ton. Recent large EC butter sales to the USSR, together with

an extensive domestic disposal scheme, were expected to significantly reduce EC stocks. However, the large EC sales had also effectively closed the USSR market for butter sales at or near the IDA minimum by other exporting countries. Production controls currently applied in the EC had meant world production and stocks of butter/butteroil were gradually decreasing, while prices were expected to continue to firm during the remainder of 1987/88.

38. With regard to the cheese situation in Australia, he continued, production in the first quarter of 1988 at 45.3 thousand tons was about 4.4 per cent less than that for the same quarter in 1987. Output of Cheddar-type cheese was 7 per cent less at 31.5 thousand tons due mainly to decreased export orders, while that of non-Cheddar cheese was predicted to increase by about 2 per cent from 13.6 thousand tons to 13.8 thousand tons. Production in 1987/88 was expected to be 189 thousand tons, representing an increase of 2.6 per cent compared with the previous year's production of 177.5 thousand tons. Cheddar cheese output for 1987/88 was forecast to increase slightly to 124.0 thousand tons and non-Cheddar was anticipated to increase to 58.0 thousand tons or 7 per cent more than in 1986/87. Exports in 1986/87 were 57.2 thousand tons (Cheddar 50 thousand tons and non-Cheddar 7.2 thousand tons). Total cheese exports in 1987/88 were forecast to reach 68 thousand tons with closing stocks of 84.2 thousand tons. Domestic sales in 1986/87 were 111.4 thousand tons, comprising Cheddar 67.1 thousand tons and non-Cheddar 44.3 thousand tons. Consumption in 1987/88 was forecast to increase marginally to around 116 thousand tons, consisting of Cheddar 68 thousand tons and non-Cheddar 48 thousand tons. World supply was expected to remain tight during 1987/88, while demand was expected to remain strong. The world price had firmed to between US\$1,550 and US\$1,650 per ton as against the GATT minimum price of cheese at US\$1,200 per ton f.o.b. on 23 March 1988. Increased domestic consumption in EC, United States and Canada was expected to result in lower exports despite some increase in production.

39. The delegate of Bulgaria was pleased to note that the general dairy situation during the first quarter of 1988 was better than in the corresponding period of last year. Positive results would be achieved if favourable weather conditions continued to prevail during the rest of the year. As a result of the introduction of new self-financing and management measures with effect from 1 January 1988, further progress was expected to be achieved in the dairy sector. In the first quarter of 1988 imports of milk powders increased due to unfavourable weather conditions in 1987 and to meet the increasing domestic requirements. Butter production during this period remained unchanged from the level in the corresponding period of the previous year. Cheese production, however, increased by 15 per cent over the level in the same period of last year.

40. The representative of Hungary at the outset apologized for the delay in the supply of the required data. This had been caused due to some administrative problems linked with the amalgamation of the Ministry of Foreign Trade and the Ministry of Commerce. He was, however, in a position to make some preliminary remarks about the dairy situation in his country. The dairy cattle number had continued to dwindle in 1987 and in the first quarter of 1988. The decline from a traditional cattle herd of 2 million head to 1.66 million head at the end of 1987 and to 1.26 million head at the end of March 1988, had also affected the dairy cow numbers, but not to the same extent. The number of dairy cows had fallen to an all-time low of 661,000, which, however, was not reflected in the volume of milk production due to increased productivity. Milk production had remained unchanged at the level of 2.7 million litres annually, though it was doubtful whether this level could be maintained in the future with a continuing decline in cow numbers.

41. As to the three product groups, he indicated that production of skimmed milk powder had dropped from 20,000 tons annually to about 16,000 tons more recently. The bulk of this product was used for animal feed purposes. The output of whole milk powder remained unchanged at the level of 4,000-5,000 tons annually. Except for occasional imports of small quantities of skimmed milk powder, there was no foreign trade in powders.

According to recent indications prices of skimmed milk powder had firmed up and were well above the GATT minimum price. Production of butter was stable at 32,000 tons annually, while consumption was steadily increasing and had reached a level of 37,000 tons in 1987. As a consequence, as much as 5,000 tons of butter had to be imported in 1987 in contrast to exports of small quantities of butter in the past. This trend was likely to continue during 1988. The market for butter was still fragile and prices were just above the minimum level. As regards the cheese situation, production had increased to 56,500 tons in 1987, but consumption had increased at a faster rate to a level of 52,000 tons as against 45,000 tons in the last few years. This trend was likely to continue. Exports, which were in the range of 9,000-10,000 tons annually, had recently dropped to a level of 5,000 tons. Export prices of cheese were well above the minimum levels, i.e. US\$1,700-US\$1,800 per ton f.o.b.

42. The observer from Canada informed the Committees that the dairy situation in 1988-89 was not expected to change very significantly from that in 1987-88. Target returns for industrial milk and resultant support prices for butter and skimmed milk powder, which were set last February at respectively Can\$5.10/kg. and Can\$3.01/kg., were forecast to change only slightly if at all, as a result of 1987 cost of production surveys. If any change was to be made, it would take effect on 1 August 1988. With an expected 3 per cent increase in Canadian per capita disposable income, demand for speciality cheeses, yogurt and ice cream was expected to increase. The requirements for fluid milk were expected to increase by over 1 per cent, while industrial milk requirements would remain the same. Cheese consumption was likely to show further increases, while butter consumption might drop somewhat in keeping with the long-term trend. Production of skimmed milk powder in the first quarter of 1988 was down by about 3 per cent. Domestic consumption was also down by about 4 per cent and as a result stocks had increased by about 4 per cent to 1,800 tons at the end of March 1988. Output of butter during the first quarter went up by about 2 per cent, but domestic consumption went down by 4 per cent so that stocks increased from about 10,000 metric tons at the beginning to 12,500 metric tons at the end of the first quarter. Production of Cheddar

and whole milk cheeses was down by about 3 per cent, but domestic consumption was up by about 7 per cent during the first quarter. As a result, stocks dropped by about 4 per cent to reach a level of 12,000 metric tons by the end of the first quarter.

43. Replying to an EC comment that Canada was the only country showing a drop in consumption of all dairy products, he added that while consumption of skimmed milk powder and butter had dropped by about 4 per cent, the demand for cheeses had increased by about 7 per cent. The reason for this shift away from butter was the general consumer preference and health considerations and also the availability of more economical substitutes. Cheese consumption, on the other hand, had increased mainly as a result of more refined tastes and a wide variety of uses in cooking.

44. The observer from Mexico informed the Committees that his country had joined the ranks of observers of the International Dairy Arrangement because it was an important importer of dairy products. The question of providing information on the dairy sector more regularly was under consideration by his authorities and like Canada they would soon be participating more actively in the deliberations of the Protocol Committees.

45. Explaining the dairy situation in the USSR the observer of the Economic Commission for Europe said that the number of dairy herd on 1 May 1988 in state and collective farms was 28.9 million head, representing a decline of about 0.7 per cent compared to a year earlier. Milk deliveries and milk yields during the first five months of 1988 went up by 5 to 6 per cent. This trend was likely to continue for the whole of 1988 provided the existing good flushing conditions persisted. Butter production during the five-month period from January to May 1988 was about 8 per cent more than in the corresponding period of last year, and an increase of the same order was forecast for the whole of 1988. Cheese output during the same period was up by 5 per cent compared to the level last year. Output of whole milk powder and margarine was also up by 3 per cent compared to last year level.

Adoption of Reports to the Council

46. In accordance with Article VII:2 of the Arrangement and Rule 22 of the Rules of Procedure, the Committees adopted reports of the three Committees on the thirty-fourth sessions held on 20, 21 and 22 June 1988. These were distributed in documents DPC/C/52, DPC/P/54 and DPC/F/57.

Other business

47. The Committees heard a statement by the European Communities on the effects of the Community's agricultural policy reforms. The full text was issued in document DPC/W/81.

48. The Committees also heard a statement by Australia regarding the recent liberalization measures taken by Australia in the field of agriculture and in particular in the dairy sector (see DPC/INV/3/Add.6/Suppl.3 for more details).

49. Views were expressed with regard to participation in the deliberations of the Protocol Committees and the Council by other important producers and traders of dairy products at least as observers. No final agreement was, however, reached on this point and it was agreed that the matter would be further considered at the September meetings.

50. The Committees heard a statement by the secretariat on the effects of the drought in the United States in relation to dairy markets.

Dates of the next sessions

51. The next sessions of the Committees will be held consecutively on 19 and 20 September 1988, subject to confirmation by the secretariat. The session of the Committee of the Protocol Regarding Certain Cheeses will be followed by the Committee of the Protocol Regarding Certain Milk Powders and then the Committee of the Protocol Regarding Milk Fat.

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

Thirty-Fourth Session

Agenda items A, B, D, E and F

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

Sales under derogations

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

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

Thirty-Fourth Session

Agenda Items A, B, D, E and F

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

Sales under derogations

2. The Committee took note of the Australian statement regarding its notification DPC/F/W/34 on 22 December 1987, that it had not been necessary to proceed with a derogation sale of butter to the USSR and that no shipments of butter had been made to the USSR.

3. The Committee also took note of the New Zealand statement that like Australia no sales had been made to the USSR under this derogation.

4. The Chairman then recalled that under the Decision of 2 June 1987 (DPC/F/48) and the Agreement of 15 December 1987 (DPC/F/53) all deliveries of butter by participants had in any case to be completed by early 1988.

5. In response to an Australian query as to how the EC sales to the USSR were progressing, the representative of the Community said that up to the end of April 1988 a total of 480,000 tons of old butter had been sold and delivered and the remainder was expected to be delivered by the end of June. The Committee took note of this statement.

6. In accordance with the Decision of the Committee on 22 March 1988 (DPC/F/55) the EC had been authorized under Article 7:1 of the Protocol to export butteroil/ghee, manufactured from butter aged at least eighteen months, out of public intervention stocks to Bangladesh at a price inferior to that set out in Article 3 of said Protocol. Exports were to be

completed by 31 December 1988. With reference to this, the representative of the EC informed the Committee that roughly 31,245 tons of old butter had so far been released from the intervention stocks at a price of ECU10 per 100 kg. It was too early to put an export price tag on the butteroil which was still to be processed and exported to Bangladesh, but rough estimates suggested that shipments after packing, transport and other charges, would cost Bangladesh something like US\$100 per 100 kg. The EC had taken all the necessary precautions that imported butteroil/ghee was consumed within the country of destination and was not re-exported. Special 20-kilogramme containers with a clear indication in English and local language that ghee was meant solely for the domestic use of Bangladesh were used to prevent the possibility of any fraudulent leakage. More details would be provided when the deal was completed.

Review of the market situation for products covered by the Protocol

7. The representative of New Zealand said that even though the proposal to increase the minimum prices would be made at the next meeting in September she wished to draw participants' attention to certain developments which justified such an increase from the New Zealand's perspective. Production of butter in New Zealand in 1987 at 195,500 tons was well down on production in the previous year when the level was 232,300 tons. Although production surged in the first quarter of 1988 to 65,700 tons, the level remained well below the previous year's production in the same quarter. Similarly, the stocks had been showing a downward trend, from 80,300 tons at the beginning of the first quarter to 71,700 tons at the end and having regularly stood at levels well over 100 thousand tons in the previous two years. Exports during 1987 at 180,100 tons were up on the total for the previous year, but well down on the 1985 level of 214,900 tons. Total exports in the first quarter of 1988 stood at 51,000 tons. Sales of anhydrous milk fat were relatively strong, but there had been little business in butter recently. Speaking more generally, the adjustment of minimum prices agreed in March had been implemented successfully for all new commitments. According to the New

Zealand Dairy Board, the market appeared to have accepted the change in minimum prices without any problems. In the case of butteroil, substantial sales had already been concluded with major milk recombining plant customers at the new higher price levels. Deliveries in the second half of 1988 were priced at US\$1,325 per ton f.o.b. There had been little business in butter at the new minimum price largely due to a lack of major business contracts. There were, however, indications of lower butter production in the European Community which had eased supply pressures on the international butter market. The pressures had been further eased by reduced production in other major producing countries, including Australia, the United States, the Nordic countries and Switzerland. It was reported that international butter stocks were substantially down on the levels of the previous two years, and an indication from the EC that its stocks were expected to drop to around 300,000 tons by the end of the current year was especially encouraging. In the light of these encouraging market signs her country believed that the butter market would pick up fairly rapidly with more limited supplies available for international trade. Sales were taking place comfortably at the new minimum prices, and further improvement could be expected in the situation until September when New Zealand would once again be formally proposing an increase in minimum prices.

8. The spokesman of the European Communities fully shared the views expressed by New Zealand and suggested that the question of a price increase should be seriously considered at the September meeting in the light of recent market developments. The Community had proposed this measure last year when the liquidation of stocks had cost as much as ECU 3.2 billion. The EC was able to reduce its accumulated stocks of old butter without disrupting the normal commercial channels for fresh butter. The supply situation had now improved to an extent that exports could once again become lucrative without burdening the scarce Community resources. At the March meeting, the EC had suggested a 20 per cent increase in the minimum prices in the hope that this would pull the market up. It worked, as confirmed by statements made by Australia and New Zealand that the market reacted favourably and the prices set were reached, despite the

fears expressed in this connection by Australia and the Nordic countries at that time. He was in full agreement with New Zealand that an increase in butter and butteroil prices could again be contemplated and the most appropriate time for this was at the next meeting in September.

9. The representative of Uruguay wished to know in which markets New Zealand had contracted to sell butter at below the minimum price in the past few weeks.

10. The representative of New Zealand categorically stated that there had been no offers at below the minimum price in the past few weeks or since the time minimum prices were changed in March.

11. The representative of the Nordic countries, while admitting that the world dairy market had shown some signs of improvement especially in the cheese and milk powder sector, said that the butter market had not recovered fully. Butter prices had improved somewhat compared to last year and were just above the minimum prices. But difficulties were still being experienced in selling this product at above the minimum price raised in March. This was evident in the lack of new contracts as admitted by New Zealand. The Nordic countries would be prepared to study the New Zealand proposal carefully, but yet another price increase would have to be justified by the evolution of the butter market until September.

12. The Australian delegate expressed some concern at the EC's future approach in terms of quotas and its effectiveness in controlling production. It was imperative that the EC did not grant additional quotas or specifically suspended 5.5 per cent quota limits. If the EC disciplines were to be relaxed, the present improvement in the world dairy situation would be reversed. Secondly, the lowering of the EC restitutions or export subsidies was linked with an increase in the GATT minimum prices. This was a positive step and could contribute to a further improvement in the market situation.

13. The representative of Hungary acknowledged that the EC had made a big financial sacrifice in liquidating its huge butter stocks, but also reiterated that the problem in the first place was of its own making as enormous subsidies paid to its producers were instrumental in producing surpluses which could not be profitably disposed of. He did not consider that present market conditions were conducive to an increase in minimum prices for butter.

14. Summing up, the Chairman recognized the valuable efforts made by the EC in controlling its milk production and thus contributing to the present improvement in the world dairy situation. Further efforts were, however, necessary to sustain this trend. It was clear that participants were in favour of considering an increase in the butter minimum price at the September meetings. Therefore, this item would be on the agenda of the forthcoming Protocol Committee and Dairy Council meetings in September.

Other business

15. The representative of the European Community informed the Committee that in response to a request received on 26 April 1988 from Algeria, Egypt and Tunisia, the European Community had decided, with reference to Article 3:7 of the Protocol Regarding Milk Fat, to sell to each of these countries the following quantities of aged butter destined for welfare purposes: Algeria 6,000 tons, Egypt 6,000 tons and Tunisia 4,000 tons. Such deliveries would be effected pursuant to No. 14 of the list of transactions established under the FAO "Principles of surplus disposal and consultative obligations" in accordance with Part One, Article V(2) of the International Dairy Arrangement (DPC/F/W/37 - 21 June 1988). These transactions would be completed by the end of the current year. The traders were required to withdraw butter from the intervention stock by 16 September 1988 for exports before the end of this year. The price was the same as set out in the EC basic regulation for sales of butter for welfare purposes to developing countries (i.e., ECU9 per 100 kg.).

16. The representative of New Zealand expressed her serious concern at such sales for so-called welfare purposes. She recalled that when a similar sale was made by the EC last time, an assurance was given that it was a one-time sale and would not be repeated. The EC had once again decided to sell significant quantities at concessional terms to important North African markets. The contracts had already been concluded and the relevant regulations had been accordingly amended to implement this decision. There had been no prior consultations with members of this Committee, nor any warning of this impending sale which was required under the EC's obligations under both the Dairy Arrangement and FAO's "Principles of surplus disposal and consultative obligations". New Zealand had felt a damage to its sales as a result of EC's concessional sales to these important markets. The financial burden borne by the EC was also weighing heavily on other exporters to these markets. If the objective was food aid, then there was no need for any price tag on these sales. She considered that sales at such low prices were disruptive and displaced sales by other suppliers. None of the criteria laid either in the IDA or CSD had been met and therefore her delegation reserved its right to revert to this matter at a later stage.

17. The Australian delegate shared these views and regretted that the EC had chosen this approach. He expressed general concern about the classification of transactions as type 14 (of the FAO's List of Transactions) where this was used to seek to avoid both the minimum price obligations under the Arrangement as well as the notification, consultation and reporting obligations applying to transactions of the types mentioned in the Catalogue of Transactions of the FAO Principles of Surplus Disposal and the Consultative Subcommittee on Surplus Disposal.

18. Concluding the discussion, the Chairman suggested that in view of the importance of the subject the Committee could revert to it at its next meeting in September and perhaps this item of "transactions other than commercial transactions" could also appear on the agenda of the Council meeting. The Committee agreed to this proposal.

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

Thirty-Fourth Session

Agenda items A, B, D, E and F

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

Sales under derogations

2. The Committee took note of the information that there were no sales of low-quality cheese by New Zealand in the fourth quarter of 1987 in relation to Article 7:2 of the Protocol Regarding Certain Cheeses (DPC/C/W/26/Add.11). During 1 January-30 June 1988, New Zealand sold 16.8 tons of such cheese at a price of US\$1,050 per ton to Sweden (DPC/C/W/26/Add.12).

3. In reply to the Chairman's question of whether Australia had sold any low-quality cheese in accordance with Article 7:2 of the Protocol as indicated earlier, the representative of Australia said that this information had been provided in the routine reply to Questionnaire 3. The EC representative, however, questioned this manner of reporting and asked for details such as the prices, destinations and the contract arrangements concerning the sale of 1,228 tons of low-quality cheese. In reply the Australian delegate reported that the sale price was Australian dollars 490-550 per ton f.o.b. and that this particular consignment was destined for certain non-traditional East European markets. He did not, however, have any additional information regarding the terms of contract or the exact destinations. Further, expressing his concern at the rapid development of low-quality cheese trade, amounting to almost 10 per cent of total Australian cheese exports in a period of three months the representative of the EC maintained that Australia was obliged to provide every three months all the details regarding prices, destinations and

quantities sold. The Australian delegate made it clear that he was not in any way secretive or withholding any information from the Committee. In December also, information on such sales had been provided on exactly the same basis and in exactly the same manner and the Committee did not seek any additional details. The exports in question were relatively small. The information regarding the countries of destination was simply not available to him, although he would be prepared to revert to this issue at the next meeting in September. The Chairman then intervened to suggest that the transparency would rather be improved if such notifications under derogations could in future be made separately and more completely. Since this item was a standing subject, the Committee could revert to it at the next meeting in September.

3. The Committee took note of the register of sales issued in document DPC/C/W/27/Rev.7.