

# GENERAL AGREEMENT ON

## TARIFFS AND TRADE

RESTRICTED

Spec(90)38  
29 October 1990

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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

Report of the Forty-Third Session

17-18 September 1990

Introduction

1. The three Protocol Committees held a joint session on 17-18 September 1990, to discuss matters relating to the operation of the three Protocols.

Adoption of the agenda

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

A. Adoption of report on the forty-second 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. Transactions other than normal commercial transactions

- E. Review of the market situation for products covered by the three Protocols
- F. Review of the level of minimum prices under Article 3:3(b) for products covered by the Protocols
- G. Oral report to the Council
- H. Other business

Adoption of report on the forty-second session

3. The report of the forty-second session was adopted as amended and distributed in document DPC/PTL/13.

Information required by the Committees

(a) Replies to Questionnaires 1 to 3

4. The Committees reviewed the replies to Questionnaires 1 to 3 and requested participants who had not yet submitted such information in respect of the second quarter of 1990 to do so without further delay. They were also requested to provide the relevant information concerning the third quarter by 7 December 1990, at the latest.

(b) Summary tables

5. The Committees took note of the summary tables based on information provided by participants in Tables A and B of the questionnaire in respect of milk powders, milk fat and cheeses, and issued respectively in documents DPC/PTL/W/22, DPC/PTL/W/23 and DPC/PTL/W/24. The Committees were informed that these figures would be further updated as soon as more recent information was made available.

(c) Other information

6. The Committees took note of the information which the secretariat had compiled on production, trade, stocks and consumption of dairy products in the United States. Data related to the second quarter of 1990 and also gave forecasts for the third quarter and the whole of 1990.

Transactions other than normal commercial transactions

7. The representative of New Zealand drew the attention of the Committees to a potential export of dairy products from a major beneficiary of food aid. India, which had hitherto been receiving considerable quantities of skimmed milk powder and butter oil by way of food aid, now reportedly had 30,000 tons of skimmed milk powder and 5,000 tons of butter for commercial exports. Recently, India had offered to sell 5,000 tons of whole milk powder to Sri Lanka at the GATT minimum price of US\$1,250 per ton f.o.b. This should be a matter of some concern to the aid-giving countries that India, a major recipient of food aid, was now converting such aid into commercial exports one way or the other.

8. Referring to another transaction that was reported in March between the European Community, more specifically the Federal Republic of Germany and the USSR, involving an export of 20,000 tons of butter, 15,000 tons of whole milk powder and 5,000 tons of cheese, he wished to know the conditions of this sale and whether any shipments had already been made.

9. The spokesman of the EEC informed that this transaction was financed by an export credit provided by the Federal Republic of Germany, but the dairy products in question were purchased by the USSR at normal commercial terms, fully respecting the IDA minimum prices. He had the copy of the letter in which the terms of this transaction were officially confirmed by the Government of the Federal Republic of Germany to the New Zealand Ambassador in Bonn on 30 August 1990. It was a political deal and therefore the matter could not be discussed under the Arrangement.

10. The representative of Australia reported a small transaction with Indonesia, involving a quantity of 16 tons of whole milk powder for the Indonesian Red Cross Emergency Food Supplement Project.

11. The Committees took note of the information and the views expressed in this context.

#### Sales under derogations

12. The Committee of the Protocol Regarding Certain Milk Powders took note of an intended sale of 3,000 tons of skimmed milk powder by New Zealand to Japan for animal feed purposes in accordance with Article 3:5 of the Protocol.

#### Review of the market situation for products covered by the Protocols

##### Australia

13. Australian milk production in 1989-90 was marginally down by 0.4 per cent to 6,262 million litres. However, production in the second quarter of 1990 was 5 per cent lower compared to the level in the same period last year, due to poor seasonal finish in Victoria where autumn production was down by 10 per cent on 1989. Production was also lower in Tasmania and New South Wales during the second quarter reflecting poor seasonal conditions in these areas, but was up by 15 per cent in Western Australia during the same period. Production was now expected to remain at about the current level during 1990-91.

14. As regards the skimmed milk powder and buttermilk powder, production of these two products increased substantially, in line with international market relativities in 1989-90, to 139,660 tons or by 10 per cent on 1988-89 level. The increase in buttermilk powder production was slightly higher than for skimmed milk powder with the relative increase in output for the year being 13 per cent for buttermilk powder and 9 per cent for skimmed milk powder. Exports of skimmed milk powder/buttermilk powder also

grew strongly during the year. The emergence of Mexico as a major buyer saw skimmed milk powder exports increase by 27.6 per cent or 19,050 tons to 87,638 tons. Exports of buttermilk powder increased by 84 per cent to 9,073 tons during the year. Domestic consumption of skimmed milk powder, however, fell more sharply than expected to 37,000 tons during 1989-90 as manufacturers continued to shift towards greater use of milk concentrates in preference to skimmed milk powder. Stock levels had declined in recent months, but company stocks of skimmed milk powder on 30 June 1990, were 5,400 tons or 29 per cent up on June 1989, reflecting the continued weakness in world markets.

15. The output of whole milk powder fell by 17 per cent in 1989-90 as manufacturers shifted to more easily stored products such as butter and skimmed milk powder in the first half of 1990. Given the difficulty of making international sales during the year, almost all production of whole milk powder in 1989-90 was undertaken on a firm order basis. Exports also fell by 11.8 per cent to 42,681 tons. By contrast domestic sales increased by 10.7 per cent to 15,133 tons. The share of the local market accounted for by domestic production also increased during the year to 89 per cent. As a result of this, producer stocks on 30 June had fallen to 8,451 tons or by 14 per cent from June 1989.

16. The production of butter/butter oil expanded by 10 per cent during 1989-90 to 105,500 tons as manufacturers responded to higher price relativities and the greater storage capacity of butter. However, output during the second quarter of 1990 was affected by reduced milk supplies in major manufacturing areas. Domestic sales of these two products slipped slightly over the year to 51,000 tons, showing a decline of 1.6 per cent. Sales of butter oil declined more rapidly following reduced industrial usage, but increased retail sales of butter blends steadied the overall market for butter, so that its overall share of the retail table spreads market increased slightly in the face of reduced overall sales. Exports of butter/butter oil fell by 3.6 per cent to 50,522 tons during the year. The decline was more marked for butter oil following a weakening in demand from traditional Asian markets. This trend was, however, offset by sales of bulk butter to the New Zealand Dairy Board for re-exports. As a result of

the decline in exports and increased production during the year, stock levels on 30 June rose to 19,800 tons, up by 4,000 tons on 1989. Australia was now into the new season and was still unable to make any export sales. The stocks were therefore expected to rise further.

17. Australian cheese production in 1989-90 fell by around 15,000 tons or 8 per cent to 175,000 tons, reflecting reduced import demand in the key Japanese market and generally unfavourable price relativities for cheese in the first half of the year. Production declined across most major categories but was more marked in the non-Cheddar areas. The production of round-eye cheese fell by 20 per cent compared to a 4 per cent decline in Cheddar output and an 8 per cent decline in shredding cheeses. Exports also declined by 17 per cent to 51,737 tons in 1989-90, mainly due to reduced sales to Japan. However, a steady increase in domestic retail sales of locally produced cheeses had acted to counter the above two trends.

18. In reply to an EEC question, the representative of Australia provided the following existing average export prices for various products:

Butter	US\$1,350-US\$1,450 per ton f.o.b.
Butter oil	US\$1,625-US\$1,700 per ton f.o.b.
Skimmed milk powder	US\$1,320-US\$1,400 per ton f.o.b.
Whole milk powder	US\$1,350-US\$1,400 per ton f.o.b.
Cheddar cheese	US\$1,600-US\$1,700 per ton f.o.b.

#### Bulgaria

19. There were no imports or exports of skimmed milk powder by Bulgaria during the second quarter of 1990. While there were no exports of buttermilk powder, imports totalled 600 tons from the Federal Republic of Germany. Imports of whole milk powder totalled 500 tons from Belgium, while there were no exports.

20. Butter production increased by 300 tons to 7,400 tons during the second quarter of 1990, the total increase in the first six months being 500 tons. No exports or imports took place during this period.

21. The output of cheese increased in the second quarter by 1,800 tons to 56,900 tons, so that the aggregate total for the first half of 1990 was 2,000 tons bigger than in the corresponding period of 1989. Cheese exports, however, declined significantly in the second quarter to 3,900 tons. Total exports in the first six months amounted to 7,300 tons, a level which was 2,900 tons less than in the same period of 1989. There were no imports of cheese during the second quarter of 1990.

#### European Economic Community

22. Estimates of milk deliveries for the calendar year 1990 were 99.1 million tons, showing a marginal increase of 0.6 per cent over 1989. Viewed on the basis of the quota year (April 1989-March 1990), however, deliveries were within the overall quota level. Butter output at 1.7 million tons in 1990 was expected to be 3 per cent higher than in the previous year. The production of skimmed milk powder was expected to be 6 per cent higher at 1.5 million tons due mainly to a 10 per cent reduction in the casein production which would total 132,000 tons in 1990. Cheese output would be about 2.4 per cent more in 1990 at a level of 4.9 million tons. The production of whole milk powder would, however, be 5 per cent lower at 690,000 tons in 1990.

23. Exports in the first half of 1990 were down, compared to the same period last year, in almost all products except cheese which had sustained its demand in the international market. Skimmed milk powder exports during this period were 4.8 per cent lower to a level of 140,000 tons; whole milk powder 6.1 per cent lower to a level of 268,000 tons; butter exports were reduced by 54.3 per cent to 70,000 tons and butter oil exports were lower by 16.8 per cent to 43,100 tons. Cheese exports on the other hand were 12.4 per cent higher to a level of 212,000 tons.

24. Average export prices on f.o.b. basis in light of the current dollar rate were as below, despite the accusations that Community refunds had been increased:

Butter	US\$1,450 per ton
Butter oil	US\$1,850 per ton
Skimmed milk powder	US\$1,340 per ton
Whole milk powder	US\$1,385 per ton
Cheese (Cheddar)	US\$1,950 per ton

However, according to the information available, many exporters were selling below the average market prices, although not below the GATT minimum prices.

25. The EEC stock situation on 1 January 1990 was that butter purchases totalled 191,000 tons, while skimmed milk powder purchases during the period 1 March to 31 August 1990 amounted to about 350,000 tons. Public stocks of butter and skimmed milk powder were 172,000 tons and 350,000 tons respectively. Public intervention for butter was being maintained by tenders and the average butter price was about 93.5 per cent of the intervention price or about ECU 269 per 100 kgs. The intervention for skimmed milk powder had been stopped with effect from 1 September 1990 and would again be taken up from 1 March next year.

26. In reply to a comment made by New Zealand on the difference between the actual international market prices and those quoted by the Community, the EEC spokesman recalled that Article 3 of the Arrangement was intended to ensure that participants would undertake necessary steps to keep export prices at or above the agreed minimum prices. This formulation was adopted to provide for free market conditions. Unlike the New Zealand Dairy Board, the EEC private operators were not in a position to control market prices. Dairy producers in the Community had higher production costs and therefore restitutions were given essentially to compensate for the difference between the EEC prices and the international market prices. When international prices were higher, the EEC restitutions were lower and

vice versa. The export restitutions in the recent past had remained unchanged in spite of the decline in the value of the dollar. There was thus a stability in EEC prices which closely followed the international market prices rather than the multi-faceted New Zealand offer prices throughout the world.

#### Switzerland

27. According to the provisional figures, milk deliveries until the end of August 1990 totalled 2.054 million tons, as against 2.126 million tons last year, thus showing a decline of 3 to 4 per cent.

28. As regards skimmed milk powder, production in the first six months of the year increased by 3 per cent, from 16,200 tons to 16,700 tons. Exports were less than 100 tons. Internal consumption had declined by about 25 per cent to 10,300 tons, as opposed to 14,300 tons in the previous year. Stocks at the end of June 1990 totalled 15,500 tons, as against only 7,200 tons in the corresponding period of last year.

29. Butter production was reduced by 1.1 per cent from 21,273 tons to 21,029 tons, in the first six months of 1990. Imports went down by 5.7 per cent in the first six months, but more butter was expected to be imported during the rest of the year. Consumption of butter had increased by 2.7 per cent, from 20,485 tons in the first six months of 1989 to 21,045 tons in the same period of 1990. This was largely due to the correction made to the price of cooking butter and a reduction effected in the price of ordinary butter.

30. Cheese production showed a slight increase of 1.4 per cent in the first half of the year. Imports increased by 4.2 per cent over the six-month period, while exports declined by 5.6 per cent during this period. Consumption of cheese was more or less stable at 48,600 tons, as against 48,300 tons in the first six months of last year. Stocks had, however, increased from 19,400 tons in the second quarter of 1989 to 21,000 tons in the second quarter of 1990. Average export prices of cheeses were around US\$ 6,200 per ton f.o.b.

Sweden

31. In Sweden, total milk deliveries were expected to be around 3.49 million tons in 1990, showing a slight increase over the previous year.

32. Production and exports of skimmed milk powder continued to increase in the second quarter of 1990, but domestic consumption fell by 8 per cent compared to its level in the same period last year. As a result, stocks increased further. The forecast for the whole year was that while consumption would remain stable, production, exports and stocks of skimmed milk powder would increase. Average export price in September was reckoned at US\$1,350 per ton f.o.b.

33. Butter production in the second quarter totalled 15,000 tons, showing an increase of 2,500 tons over the same period last year. Domestic consumption also increased substantially during this period. As indicated earlier, the Swedish exporters of butter had continued to experience difficulties with respect to sales on the international market at or above the GATT minimum prices. Consequently, the stocks of butter had increased to 9,600 tons, and export stocks alone had increased to more than 8,000 tons and were further increasing.

34. Cheese output in the second quarter of 1990 at 27,900 tons was about 2 per cent more than in the corresponding period of 1989. During the first five months of this year, imports had increased by 20 per cent and earlier forecasts in this respect had proved to be wrong due mainly to the rising trend in consumption, which was already around 15 kgs. per capita per annum. While exports were expected to decrease somewhat, production and consumption of cheeses were likely to increase in 1990.

Norway

35. Milk deliveries in the first six months of 1990 in Norway were slightly up compared to the same period last year. Deliveries were expected to decline during the rest of the year, however, keeping the year-end total equal to that of last year.

36. Butter production was down by 8 per cent compared to the level in the first half of 1989, but the decline was expected to slow down so that the total production for 1990 would be about 5 per cent lower than that of 1989. Domestic consumption of butter was 10 per cent lower in the first half of this year, but the decline was expected to abate somewhat during the rest of the year. Exports in the first half of the year totalled 7,200 tons, solely to the Soviet Union. Further quantities were available for export, but Norwegian exporters were finding it difficult to export at the current IDA minimum price.

37. In reply to a question by New Zealand, the representative of Norway mentioned that the sale of 7,200 tons of butter to the Soviet Union was negotiated in the fall of 1989 and that was the reason why prices were so high. The actual shipments were carried out in the first half of 1990.

38. Cheese production was somewhat higher compared to last year, but the total for 1990 was expected to be lower than last year. Consumption, on the other hand, was slightly down which, however, might pick up to bring the year-end total up to last year's level. Imports of cheese had slightly accelerated, but were not expected to exceed the level of last year. Exports were also substantially up compared to last year, but the relative rise was expected to level off during the rest of the year. Total exports for 1990 would be around 23,000-24,000 tons.

39. The situation regarding skimmed milk powder was normal. A limited quantity had been exported during the first half of 1990, but no further exports were expected during the rest of the year. No imports were expected either.

#### Finland

40. In Finland, milk deliveries during the first half of 1990 were 6.3 per cent higher than in the corresponding period of last year but this apparent increase was due to the fact that production was exceptionally low due to a bad harvest in the corresponding period of last year. During the period

January-July 1990 the average yield per cow rose by 200 litres per cow. The number of cows had, however, declined by 2 per cent over the year. In June 1990, the number of cows was 496,600. Estimates for the whole of the year indicate that milk deliveries would reach a level of 2,600 million litres, showing an increase of 2.1 per cent over the last year.

41. Butter production during the first half of 1990 was 6 per cent higher than in the same period last year. Estimates for the whole year indicate a decline of 3 per cent to a level of 62,000 tons. Consumption during this period fell by 17 per cent and the fall for the entire year was expected to be 11 per cent. In the second quarter of 1990, 8,100 tons of butter were exported at an average price of US\$1,548 per ton f.o.b. Stocks at the end of July were 15,400 tons.

42. In reply to a question by New Zealand, the Finnish delegate informed that the major part of the sale of 8,100 tons went to the USSR at the price indicated earlier. A total of 18,000 tons of butter had been contracted for shipment to the USSR in the third quarter of last year. All of this had been delivered at this price in calendar year 1990.

43. Cheese output was 7 per cent up over the first half of 1989 and for the year 1990 would be 2 per cent more than in 1989 to an aggregate of 92,000 tons. Consumption was also up by 3 per cent. Exports during the second quarter amounted to 7,400 tons at an average price of US\$3,690 per ton f.o.b. Stocks at the end of June totalled 12,200 tons.

44. The production of skimmed milk powder decreased by 5 per cent in the first half of 1990. Stocks at the end of June were 13,400 tons. Exports during the second quarter at around 5,100 tons were at an average price of US\$1,705 per ton f.o.b. Stocks for exports at the end of June amounted to 6,000 tons.

#### South Africa

45. Milk production during the period July 1989 to June 1990 was 4.2 per cent up compared to the level in the same period last year. It was expected to continue to increase at a rate of almost 5 per cent during the

next year. Milk production in the second quarter of 1990 at 451,698 tons was expected to increase by 8.4 per cent to reach a level of 489,655 tons in the third quarter due to the approaching summer period when milk production generally rose. Milk consumption was expected to increase from 452,148 tons in the second quarter to 487,190 tons in the third quarter of 1990, representing an increase of 7.8 per cent.

46. The skimmed milk powder production, as estimated by the Dairy Service Organisation, for the third quarter would be 4,941 tons, which would be 9.9 per cent higher than for the second quarter of 1990. Consumption was expected to be around 4,600 tons or 5.3 per cent higher in the third quarter than in the second quarter. Exports during the second quarter amounted to 720 tons and a further 3,000 tons were expected to be exported during the third quarter. Stocks were likely to reach a level of 7,000 tons by the end of September 1990.

47. The production of whole milk powder was 2,411 tons for the second quarter, but was expected to decrease to 1,800 tons in the third quarter of 1990. Consumption during the second quarter was a little lower than expected, but in the third quarter was expected to be around 2,200 tons. Exports in the second quarter were only 156 tons and in the third quarter would be 200 tons. Stocks at the end of September 1990 were 1,146 tons.

48. Butter production at 4,604 tons in the second quarter was 47.8 per cent higher than expected, mainly due to the surplus production of milk. It was expected to reach a level of 4,175 tons in the third quarter. Consumption in the third quarter was expected to be 4,045 tons. There were no imports or exports of butter during the second quarter and nothing was envisaged for the third quarter.

49. Production of cheese was likely to total 11,157 tons (5,671 tons for Gouda and 5,486 tons for Cheddar) in the third quarter. Consumption was estimated at 10,763 tons or 1.2 per cent higher than in the third quarter of 1989. No imports or exports were expected and cheese stocks were expected to reach a level of 9,640 tons by the end of September 1990.

Poland

50. The representative of Poland regretted that the relevant information under Questionnaires 1 to 3 could not be provided at this stage due to the process of transformation of the economic system into the market economy. More time was needed for this pending the setting up of the new statistical system in his country.

51. On the basis of indicators available, the market situation in the dairy sector appeared to be difficult during the current transitional period. Dairy products processing units were confronted with a reduced domestic demand resulting from increased prices linked with the abolition of all subsidies with effect from 1 August 1989. The difficult economic situation was accompanied by numerous social problems for the dairy producers in particular. The dairy sector was currently faced with the task of changing its ownership structure and in view of the low ratio of capital presently held by farmers, the transformation of this sector was possible only in a longer time frame.

52. In reply to an EC question as to whether an export licence was necessary for exports of all dairy products and as to what would happen if the export price was below the IDA minimum price, the Polish representative informed the Committees that export licensing was applied to exports of all dairy products, including the exports of skimmed milk powder and that the prices at which the shipment was made had to be clearly indicated in the export documents. The export licence was not issued if the prices indicated were below the IDA minimum prices.

New Zealand

53. The production season in New Zealand was now getting into full swing, with the seasonal peak being at the end of October. The number of cows being milked in the 1990/91 season was forecast to be little different from the number milked in 1989/90 when milk production was close to the average of the last five years. The main influence on production in 1990/91 would

be climatic conditions in the major dairying regions. Assuming average weather conditions, no change in production was anticipated.

54. The New Zealand Dairy Board had entered the new season with stocks of cheese higher than desirable, therefore, production in 1990/91 would be kept below the 1989/90 level. Whole milk powder production might recover from the low level of last season but this would depend on the availability of export markets. Beyond this, the product mix would not be substantially different from 1989/90.

55. The central issue for the industry currently was the effect of the fall in export prices and therefore industry income. A major cut in payments to farmers for milk already was certain, even with the new season just beginning.

56. As indicated earlier, the final price fixed by the New Zealand Dairy Board for the 1989/90 season was NZ\$5.80/kg. of milk fat (equivalent to about 33 per cent of the EC target milk price). For the 1990/91 season, this price had been reduced by 31 per cent to NZ\$4/kg. milk fat (23 per cent of the EC's target milk price) and, given current market conditions and the outlook, the industry had been told that the price would not be increased. This meant that the situation was not at all favourable for the New Zealand milk producers.

57. Average export prices experienced on the international market were as follows:

Butter	US\$1,350-US\$1,450 per ton f.o.b. (except for 3,000 tons of butter exported to Japan this year at a fairly high price of US\$1,500-US\$1,600 per ton f.o.b.)
Butter oil	US\$1,625-US\$1,725 per ton f.o.b.
Skimmed milk powder	US\$1,300-US\$1,450 per ton f.o.b.
Whole milk powder	US\$1,250-US\$1,400 per ton f.o.b.
Cheese	US\$1,500-US\$1,700 per ton f.o.b.

58. Referring to the international market conditions, the representative of New Zealand said that the major influence in the last two months had been the flow-on effects from the export subsidy increases applied by the European Community on 20 July, which were immediately reflected in reductions in export offer prices by Community exporters exactly equal to the subsidy increases. Since Community supplies dominated the market, accounting for more than half of total supply, this resulted in an automatic and general movement down of prices as other exporters, including the New Zealand Dairy Board, were forced to make matching price adjustments.

59. The fall in prices in United States dollar terms subsequently had been mitigated marginally by the further weakening of the US dollar against European currencies through August.

60. The direct impact of the Middle East developments had so far been localized. Depending on the way the crisis developed and its duration, it could involve a significant loss of import market opportunities, especially for butter and whole milk powder. Longer term positive spin-off might come in the form of higher export earnings from oil and petroleum products which could benefit many important dairy product import markets, notably (for butter) the USSR and Iran and (for milk powder) Mexico and Venezuela.

61. The generally bearish market sentiment had been further reinforced by the increase in EC export subsidies in July. As a result of falling prices importers had expected a postponement of new purchasing in favour of further depletion of pipeline stocks. This sentiment was now being fed on the uncertainty surrounding the internal management of the EC's dairy market and the further increasing of surplus stocks of butter and skimmed milk powder. The key to the reversal of these attitudes was, therefore, an early and resolute implementation by the Community of domestic measures to deal with its surplus stocks. This was a necessary condition for the stabilization of export prices and their rebuilding.

62. Besides these supply side influences, the other central factor in the international dairy market outlook was the position of the USSR. Imports of butter by the Soviet Union were critical to the balance of international

dairy markets accounting for up to two-thirds of total butter traded (up to 70 per cent of all EC exports) in recent years. The USSR was now facing a severe shortage of foreign exchange to finance imports of agricultural products, grain, meat and dairy products. Arrangements which were devised to extend credit or otherwise underwrite purchases of butter by the USSR would generally be a critical factor for dairy markets in the next twelve months.

63. As regards international market developments for various dairy products, the delegate of New Zealand mentioned that trade transactions in the previous three months in particular, and throughout 1990 generally, had involved only minor quantities of butter and butter oil. The New Zealand Dairy Board sales had been confined to small on-going general trade business, much of which was concentrated in the Middle East region. The limited trading opportunities for butter had mostly been satisfied by East European countries at prices below the minimum. A sale of three shipments, each of 1,800 tons to Morocco last month at prices between US\$900-US\$1,000 per ton f.o.b. was typical. Significantly, Iran had not purchased any butter this year and the outlook for further purchases remained uncertain due to the unavailability of foreign exchange. A small tender for 3,000 tons of butter was held last month by the Japanese LIPC to cover a potential shortfall in domestic supply. Prices in the tender were significantly higher at between US\$1,500-US\$1,600 per ton f.o.b. Prices for both butter and butter oil had been, apart from Eastern European suppliers and the sale to Japan, trading mainly in ranges down to the GATT minima of US\$1,350 per ton f.o.b. (for salted butter) and US\$1,625 per ton f.o.b. for butter oil respectively; US\$1,350 to US\$1,450 for butter and US\$1,625 to US\$1,725 for butter oil.

64. With the United States having no skimmed milk powder to export due to high prices and no stocks, the key market influence was supply availability from the European Community. In the short term, this was being determined and currently being increased by a major reduction in the use of skimmed milk powder in the Community for animal feed. Welcome changes in the Community were the steps to recover some of the use of skimmed milk powder

in calf feeding lost in recent years. The market had been affected negatively by uncertainty about future movements of Community prices because it was not clear what would happen once intervention buying was suspended in September. Exporters and market operators had been nervous and hedging their forward positions accordingly. Last month, Community prices had fluctuated between US\$1,300 to US\$1,450 per ton f.o.b., at which they had been matched by the New Zealand Dairy Board and other suppliers. In August, contracts were negotiated by Algeria with a number of suppliers covering substantial volumes of skimmed milk powder to be imported over the next six months. Complete information was still not available regarding the total volumes purchased and the prices paid, but it was believed that between 40,000-60,000 tons had been contracted. A further tender for stockfeed grade skimmed milk powder was held in Japan in the second week of September, which was totally supplied by Poland and Czechoslovakia at prices below the minima. It appeared, however, that this had mopped up immediately the remaining surpluses of Eastern European skimmed milk powder and thereby assisted the market generally.

65. As regards whole milk powder, export prices adjusted immediately to the higher level of export subsidies applied by the EC on 20 July. Prices currently were in the range of US\$1,250-US\$1,400 per ton f.o.b. for powder traded in bulk form. On-going business in consumer pack product had continued at the new reduced price levels. The trade sanctions imposed on Iraq and Kuwait could have a significant impact on whole milk powder trade in small packs with imports into those two countries together of the order of 50,000 tons annually.

66. Export markets for cheese had been influenced by the same general pressures as those affecting other products. For Cheddar, export prices were currently of the order of US\$1,500-US\$1,700 per ton f.o.b. depending on markets and quality. Prices of Cheddar in Japan were higher than this because of the lower Community export subsidy applied there.

67. Markets for casein were still undergoing major adjustments, driven by the re-ordering of the EC's skimmed milk powder market. The proposed introduction of restrictions on the use of casein in cheese manufacture was

bound to have important ramifications for the established pattern of supply and for prices. Pending the change in the regulations, the extent of the required adjustments could not as yet be determined. A further continuing uncertainty related to the availability of very low cost variable grade casein from Poland. New Zealand casein was being sold by the New Zealand Dairy Board in Europe currently at prices around DM 6,500 per ton, delivered, duty paid. Prices for acid casein in the United States ranged from US\$2.10 per lb. down to US\$1.70 per lb. depending on customer and quality. Rennet casein prices in the United States had been retained, however, in the range of US\$2.10 per lb.

68. Replying to an EC question, the representative of New Zealand informed the Committees that following a disruption in supplies from East European countries the New Zealand Dairy Board had agreed to supply 23,500 tons of milk powders to Cuba over a two-year period 1990-91. The agreement covered 5,000 tons of whole milk powder and 6,500 tons of skimmed milk powder for 1990, and 6,000 tons each of whole milk powder and skimmed milk powder for 1991. The agreed prices for 1990 were US\$2,050 per ton c.i.f. for whole milk powder and US\$1,936 per ton c.i.f. for skimmed milk powder. On f.o.b. basis these prices worked out to be US\$1,600 per ton. The prices for 1991 were still to be negotiated. The payments for these shipments were guaranteed by an undisclosed bank against exports of Cuban sugar to third countries. Replying to another comment by Argentina that New Zealand had made offers at below the IDA minimum prices, the delegate of New Zealand denied that and said that the offer to sell 5,000 tons of ten-month old skimmed milk powder to Argentina at a price of US\$1,240 c.i.f. had not materialized and a recent sale of 47.75 tons of skimmed milk powder to Brazil at a c.i.f. price of US\$1,615 per ton (US\$1,415/ton f.o.b.) was above the IDA minimum price. The freight charges on this second consignment were higher, i.e. US\$200 per ton, because of the smaller volume of exports. Responding to another comment by the EC that the figures provided by New Zealand in Questionnaires 1 to 3 did not clearly bring out the extent of the increase in production or exports, he reaffirmed that both production and exports had remained stable in the past few years. Production of milk, for example, in the last five years had fluctuated

between 6.3 million tons and 7.3 million tons. The peak production of 7.3 million tons in the 1985/86 season (ending 31 May) was followed by the lowest level of 6.3 million tons in 1986/87, then recovering to 7.1 million tons in 1987/88, and again dropping to a figure of 6.8 million tons in 1988/89. In 1989/90, there was some recovery with production increasing to 7.1 million tons, but this was still 6 per cent lower than the peak year of 1985/86 and close to the average level of production in the past five years. Production remained stable because New Zealand's target price for milk to producer was less than one fourth of what was being given in the EC. Lower target prices kept a check on excessive production. Similarly, exports of major dairy products in 1989 were relatively lower compared to their level in 1988, as was obvious from the chart below:

	<u>1988</u>	<u>1989</u>
Butter	185,525 tons	138,947 tons
Cheese	97,404 tons	82,786 tons
Anhydrous milk fat	51,668 tons	28,188 tons
Whole milk powder	179,000 tons	133,000 tons
Buttermilk powder	22,000 tons	13,000 tons
Casein and caseinates	60,000 tons	48,000 tons

It was, therefore, not correct to say that New Zealand's exports had increased. The European Community still controlled 50 to 60 per cent of the world dairy market because it was able to subsidize its exports. Other exporters had to watch EC prices to remain competitive on the world market.

#### Hungary

69. Butter production in Hungary during the first quarter of 1990 at 19,600 tons was 3 per cent lower than the level in the corresponding period of last year. Exports during this period were, however, nearly 9 per cent more at 4,500 tons. In 1989 the share of exports to total butter production was 15 per cent. The main destinations of exports were the USSR and Romania and the average export price was US\$1,500 per ton f.o.b.

70. Cheese production in the first quarter of 1990 was also 9 per cent lower at 25,500 tons compared to its level last year. Exports were, on the other hand 50 per cent higher at a level of 7,500 tons, and the main destinations were Yugoslavia, Near East and the United States. Average export prices were around US\$2,000 per ton f.o.b. Almost 27 per cent of the total cheese produced was exported.

71. Production of milk powders at 21,900 tons was 6.3 per cent higher in the first quarter of 1990 than in the corresponding period of last year. Exports declined to a level of 6,600 tons or by 5.7 per cent during the first quarter compared to the same period of 1989. The main outlet for exports was Romania at an average price of US\$1,480 per ton f.o.b. About 27 per cent of domestic production of milk powders was used for exports.

72. The representative of Hungary informed the Committees that more information on the market situation could not be provided at present due to an on-going re-organization of the statistical services in her country. The transformation of the Hungarian economy into a market economy had caused some serious logistical problems for the new government but it was hoped that more detailed information for the whole of the year would be made available in the next few months.

73. In reply to a question by the representative of Argentina as to whether Hungary had obtained special tariff rates on agricultural exports to the United States under the GSP scheme or otherwise, the Hungarian delegate undertook to provide the information at some later stage. Further elaborating at the request of the spokesman of the Community, however, the delegate of Argentina said that according to his sources the United States had made an exception for Hungarian and Romanian exports of agricultural products under the GSP scheme and import tariffs were to be reduced to zero. The United States Government's decision to this effect was expected to be implemented on 27 September 1990. There was, however, a tariff of 25 per cent for agricultural imports from Argentina.

Japan

74. During the second quarter of 1990, milk production increased by 3.1 per cent in relation to the same period in 1989. Following the hot summer, however, the rate of increase had been considerably slowed down. With regard to fresh milk for drinking, production of which had been 61 per cent of total production in 1989, demand had stagnated since the end of 1989, but surged again in May of this year due to climatic conditions. In June and July, the increase was of the order of 4.5 per cent.

75. Skimmed milk powder production increased by 7.1 per cent during the second quarter of 1990 as compared to the same period last year, but since June it had tended to decline and in July the decrease was of the order of 6.2 per cent. Imports during the first half of the year totalled 38,000 tons, showing a decline of 22.4 per cent in relation to the first half of 1989. Import prices during the second quarter for skimmed milk powder (animal feed purposes) had declined by 5.1 per cent compared to the corresponding period of 1989.

76. The trends in butter production were more or less comparable to those for skimmed milk powder. Production increased by 5 per cent during the second quarter, but prices registered a decrease of 13.6 per cent in July. The market situation had firmed, as the selling price was 6 per cent higher than the stabilization indicative price fixed for butter. Considering that the market situation was more promising, the government had decided to import 3,000 tons of butter in September through the LIPC. Imports during the second quarter totalled 1,200 tons. Average import price increased by 1.7 per cent during this period in relation to the corresponding period of 1989. However, it appeared that prices were falling (in June 1990, prices were 3.4 per cent less than in June 1989) after a period of high prices (an increase of 9.4 per cent in May 1990).

77. Cheese production decreased by 7.7 per cent during the second quarter as compared to the same period of the previous year. Imports during the first half of 1990 totalled 49,900 tons, of which natural cheeses were

49,400 tons, showing a decrease of 5.5 per cent, and processed cheeses at 492 tons, more than doubling, as compared to the first half of 1989. Import prices during the second quarter remained high (i.e. 27.7 per cent higher than in the second quarter of 1989). The import price of processed cheese had also increased by 1.7 per cent during this period.

### Argentina

78. Milk production in Argentina was about 7 million tons in 1989, on about 30,000 dairy farms. In the recent years, while the yields had increased, small farms had tended to disappear. The present dairy enterprises were most modern and efficient. Production was characterized by its "seasonality" with decreases in winter and substantial increases in spring, thus creating serious problems for the industrial sector which required more stable deliveries of milk throughout the year. This situation had now been rectified by the adoption of differentiated prices to producers. Since the 1940's, production had steadily increased from 3,560 million litres to 4,180 million litres in the 1950's and 5,000 million litres in 1974. This was due to improved technology rather than the increase in the number of farms or the number of cows or even the dairy area. Dairy numbers were now around 2 million head, the majority of which were Dutch-Argentine race fed mainly on pastures without the use of fertilizers or agro-chemical products.

79. The dairy industry was characterized by twenty enterprises, which processed over 80 per cent of the milk produced. In the cheese sector, however, there still were small enterprises manufacturing cheese. Until recently, the entire production was consumed domestically, with small quantities being imported. The situation had changed now. In 1989, exports totalled US\$146 million and, in volume terms, exports were some 12 per cent of domestic production as against 6.5 per cent in 1988 and a mere 1 per cent in 1987. In terms of milk equivalent, 45 per cent of total exports were skimmed milk powder, 28 per cent whole milk powder and some 19 per cent cheeses.

80. Finally, expressing his serious concern at the present market situation, the representative of Argentina drew the attention of the Committees to offers of sale being made by certain participants at below the IDA minimum prices. Such offers could only destabilize the market for dairy products and also undermine the credibility of the Arrangement. In this connection, he cited New Zealand's offer of sale of 5,000 tons of skimmed milk powder at a c.i.f. price of US\$1,240 per ton and Hungary's offer of 204 tons of skimmed milk powder at a f.o.b. (Belgian port) price of US\$965 per ton to Argentina. Even though these two offers failed to materialize, they had a depressing effect on international prices.

#### Canada

81. The observer from Canada informed the Committees that during the 1989/90 dairy year (1 August-31 July) production of major dairy products reflected a reduction in market sharing quotas (MSQ) for industrial milk, thus reducing industrial milk deliveries by 3.6 per cent from 47.76 million hectolitres in 1988/89 to 47 million hectolitres in 1989/90. Production of skimmed milk powder in 1989/90 was expected to be 93,000 tons as compared to 103,200 tons in 1988/89, thus showing a reduction of 10 per cent. In 1990/91, forecasts indicated a further reduction of 3 per cent to a level of 90,000 tons. Production of butter in 1989/90 at 99,000 tons was 2 per cent lower from a level of 101,500 tons in 1988/89. In 1990/91, a further decline of 6 per cent to a level of 93,000 tons was anticipated. The production of Cheddar cheese at 111,500 tons was 5 per cent lower from a level of 116,700 tons in 1988/89. The output of other cheeses would fall marginally from 138,500 tons in 1988/89 to 137,100 tons in 1989/90. In 1990/91, an increase of 3 per cent and 5 per cent respectively was expected in these two types of cheeses.

82. As regards exports of skimmed milk powder, which was the major export product, no significant change was anticipated. Exports of around 40,000 tons were more or less stable. Stocks of butter of around 25,000 tons were also stable. Consumption of butter, however, had shown a steady decline. Domestic disappearance in 1987/88 at 99,500 tons was 4.1 per cent

lower to a level of 95,460 tons in 1988/89 and was estimated to have been reduced by another 3.8 per cent to a level of 92,000 tons in 1989/90.

83. The target price for industrial milk was increased by 2.6 per cent to \$48.69 per hectolitre with effect from 1 August 1990. As well, the support price for butter rose from \$5.167 to \$5.331 per kg. and the skimmed milk powder price was raised from \$3.046 to \$3.130 per kg. The market sharing quota (MSQ) was reduced by 3 per cent for the 1990/91 dairy year, as a result of which individual producers' quota holdings were expected to be reduced. The 3 per cent quota was necessary because of a decrease in the estimated domestic requirements of industrial milk which was due to a reduction in domestic requirements for butterfat and increased skim-off from the fluid sector as a result of more and more low fat fluid milk sales.

#### Economic Commission for Europe

84. The observer from the Economic Commission for Europe informed the Committees that cow numbers in July 1990 at 28.2 million head on the State and collective farms in the USSR declined by 1.4 per cent compared to July 1989. Global milk production increased by about 3 per cent during the first half of 1990, almost due to increased milk yield.

85. Butter production in the first half of 1990 was 5 per cent above last year's level, while the output of margarine showed a modest increase of about 1 per cent. During 1989, the USSR butter imports declined by 44 per cent, from 440,500 tons in 1988 to 247,100 tons in 1989, but in value terms showed an increase by 29 per cent. The sources of USSR butter imports were the European Economic Community, 38 per cent (77 per cent in 1988); New Zealand, 12 per cent (9 per cent in 1988); and, the unspecified origins, 40 per cent (15 to 28 per cent in 1988). Exports of butter from the USSR amounting to 14,400 tons increased by 12 per cent, as against butter imports which went up by 22 per cent during the first half of 1990.

86. Cheese production rose slightly by 0.2 per cent during the first half of 1990. Imports of cheese during 1989 totalling 11,600 tons showed a decline of 5 per cent as compared to their level in 1988, while exports went up by 5 per cent reaching a level of 5,900 tons.

87. Imports of milk powders during 1989 totalled 82,100 tons, showing a sharp increase of 40 per cent over the previous year.

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

88. The Committees reviewed the level of the minimum prices of products covered by the three Protocols on the basis of the criteria established by the Arrangement. In view of the uncertainties affecting the current market situation, notably for butter, the Committees decided to maintain the minimum export prices at their present levels, and urged the participants to strictly adhere to them in order to stabilize the world market for dairy products.

89. In this connection, the representative of the Community observed that certain offers and sales had been made well below the agreed minimum export prices. Though the present unstable market situation had been triggered by certain non-signatories, some of the participants also appeared to have made offers contrary to their obligations under the International Dairy Arrangement. To keep up with these offers and to remain competitive, the EC was obliged to raise its export restitutions. At this juncture when an overall agreement under the Uruguay Round was being negotiated which aimed at a significant reduction in internal support and export subsidies, it was imperative that participants should refrain from a mutual trade war. It was also not opportune to modify the existing minimum export prices. The EC would be obliged to increase its restitutions if these prices were to be modified. The Community was, therefore, in favour of keeping the minimum export prices unchanged at their present levels. The Committees should, however, reiterate their appeal already made to non-participants not to sell below the minima. The appeal made to certain participants of the

Arrangement to observe more strictly the minimum prices should also be reaffirmed.

90. The representative of Argentina expressed his complete agreement with the statement of the EC and once again emphasized the need to respect the agreed minimum prices to bring normalcy to the international dairy market.

91. The Australian delegate also believed that the time was not appropriate to change the existing minimum prices. He was, however, seriously concerned that if prices were maintained members must abide by those prices. Some members appeared to go below the current minima and even if this could not be proved, the reality of the situation and its implications must not be ignored. If prices were maintained, there was a likelihood of some members seeking derogation sales particularly of milk fat, which might not take account of the needs of all members. Subject to an improvement in the market situation, Australia reserved its right under the IDA to redress the situation and to allow Australian trade to be maintained. If this did not happen, as Australian exporters continued to claim, major difficulties were foreseen in the coming months.

92. Responding to the EC question as to whether Australia intended to take unilateral measures to redress the market situation, he made it clear that his country wished to remain within the confines of the Arrangement. If, however, arrangements were made which did not consider the interests of other exporters, Australia would have to safeguard its interests without, of course, threatening the Arrangement.

93. Joining the consensus, the representative of New Zealand fully supported the maintenance of the existing level of minimum prices and urged all members to respect them. Any review of the minimum export prices, in accordance with the criteria based on Article 3:3(b), had to consider the need to maintain a long-term minimum return to the most economic producers, to improve the relationship between the levels of minimum prices and dairy support levels and market price developments and outlook. Even though costs faced by producers had risen as a result of higher feed costs and

diesel costs in the wake of the Middle East crisis, the realities of the market situation warranted that the existing level of minimum prices was kept unchanged.

94. On behalf of the Nordic countries, the representative of Sweden remarked that although the present contraction in the butter market was temporary, the future outlook did not appear to be promising and, therefore, it would be necessary to revert to this matter at the next meeting of the Committees. It was obvious that most of the participants were at present opposed to any change in minimum prices; the Nordic group was also willing to "wait and see". At the same time, however, it was necessary to emphasize once again the need to respect the agreed minimum prices to maintain the credibility of the Arrangement. The Nordic group was fully respecting the agreed minimum prices.

95. The representative of South Africa shared the concern expressed regarding the worsening dairy market conditions, especially in respect of skimmed milk powder, and fully supported the appeal that minimum prices should be respected. It was an open secret that some participants, who happened to be the price-makers, were making offers below the minimum prices and, as a result, other participants, including South Africa, were faced with a difficult market situation. The international market was still in the doldrums and it would be rather naive to believe that the existing minimum prices could be sustained and respected by all members. South Africa did not export for two months in the interest of the Arrangement, but this had led to numerous difficulties in this area. At the last meeting, his country had indicated its desire for a derogation for the exports of skimmed milk powder, but the request was withdrawn at the persuasion of other members of the Arrangement. The situation had, however, become more and more intolerable. South Africa was not a major player in the international dairy market. It therefore fully supported the objectives of the Arrangement. In the current unstable situation, however, most participants, including South Africa, found it difficult to respect their commitments under the Arrangement. Other options were being considered to overcome the present difficulties.

96. The representative of Uruguay also favoured the maintenance of the existing level of minimum prices and stressed the need for a strict adherence by all members of the Arrangement.

97. The representative of Hungary mentioned that due to very high interest rates, 30 per cent or so, the dairy producers found it difficult to hold stocks for too long. Domestic consumption was also falling due to the same reason. The increasing stock levels were expected to be reduced this summer due to drought conditions and also because excessive stocks were being used for animal feed purposes, but the financial problems of dairy farmers were not likely to be resolved in the near future. In any case, Hungary was only a small exporter and as such was not in a position to influence the international dairy prices. Nevertheless, she was in favour of maintaining the existing level of minimum prices and respecting them.

98. The representative of Switzerland said that the main objective of the minimum prices was that it should serve as a safety net below which market prices should not be allowed to fall. Switzerland had always observed these prices. The message to be conveyed to the market now should be that the present levels of minimum prices were to be maintained and respected by all members of the Arrangement.

99. Summing up, the Chairman observed that there was a broad consensus that in view of the uncertainties affecting the current market situation, notably for butter, the minimum export prices must be maintained at their present levels and participants should be urged to respect them. Some participants had reserved the right to revert to this question later if there was no improvement in dairy market conditions.

#### Adoption of report to the Council

100. The three Committees agreed that an oral report giving an account of discussions at the present session would be submitted to the Council. This report would be later incorporated in document DPC/35.

Dates of next sessions

101. The next sessions of the Committees will be held consecutively on 10-11 December 1990, subject to confirmation by the secretariat. The Committees will meet in joint session, but separate meetings could be held in the order of Cheese, Milk Powders and Milk Fat, if it was considered necessary.

102. The Committees finally took note of the tentative time schedule for the regular meetings up to the end of 1991, which would be incorporated in document DPC/35. It was understood that any special session would be in addition to that schedule and that all dates would remain subject to confirmation by the secretariat.