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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 CHEESES

Draft Report of the Forty-Ninth Session

16 March 1992

Introduction

1. The three Protocol Committees held a joint session on 16 March 1992, 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. Election of Chairman and Vice-Chairman
- B. Adoption of report on the forty-eighth session
- C. Information required by the Committees:

- (i) Replies to questionnaires:

- Questionnaire 1: Certain milk powders

- Questionnaire 2: Milk fat

- Questionnaire 3: Certain cheeses

- (ii) Summary tables

- (iii) Other information

- D. Transactions other than normal commercial transactions

- E. Sales under derogation
- F. Review of the market situation
- G. Review of the level of minimum prices under Article 3:3(b)
- H. Relationship between the minimum export prices fixed for pilot products
- I. Oral report to the Council
- J. Other business
- K. Date of the next meetings

Election of Chairman and Vice-Chairman

3. In accordance with Rule 15, of the Rules of Procedure, the Committees elected Mr. Kim Luotonen (Finland) as Chairman for 1992/93; no Vice-Chairman was elected.

Adoption of report on the forty-eighth session

4. The report of the forty-eighth session was adopted and distributed in document DPC/PTL/23.

Information required by the Committees

(a) Replies to Questionnaires 1 to 3

5. The Committees reviewed the replies to Questionnaires 1 to 3 and requested participants who had not yet submitted such information in respect of the fourth quarter of 1991 to do so without further delay. Participants were also requested to provide all the relevant information concerning the first quarter of 1992 by 12 June 1992, at the latest.

(b) Summary tables

6. The Committees took note of the summary tables based on information provided by participants in Tables A and B of the questionnaire in respect of milk fat, cheeses and skimmed milk powder and whole milk powder and issued, respectively, in documents DPC/PTL/W/71, DPC/PTL/W/72 and DPC/PTL/W/73. The Committees were informed that these figures would be further updated as soon as more recent information was available.

(c) Other information

7. The Committees took note of the information which the secretariat had compiled on production, trade, stocks and consumption of dairy products in the United States, providing data related to the fourth quarter of 1991 and also some forecasts for the first quarter of 1992.

Transactions other than normal commercial transactions

8. Participants exchanged information on transactions other than normal commercial transactions. The representative of the European Communities provided preliminary information regarding food aid to the former USSR area and to other Eastern European countries. The EC intended to furnish the equivalent of ECU 250 million in food aid to the former USSR area including dairy products. He stated that 48,850 tons of whole milk powder and 7,300 tons of baby food would be donated as food aid of which some 31,000 tons of whole milk powder were destined for the Federation of Russia. Final details on the quantities already delivered and the manner in which they were delivered were not yet available. For this reason, the EC had not yet furnished a written notification to the secretariat. In 1991, the EC provided 2,000 tons of skimmed milk powder and 5,000 tons of butter as food aid to Romania. In addition, some 2,000 tons of whole milk powder and 1,500 tons of baby food would be delivered in early 1992 to that country. The EC intended to provide, as food aid, 1,000 tons of butter to Albania and 4,200 tons of skimmed milk powder to Bulgaria.

9. The representative of Australia said that his authorities, while recognizing that the political and economic changes in Eastern Europe had created a pressure to provide food aid to that area, were concerned that such transactions should not undermine normal commercial transactions, particularly those of butter. The representative of Australia also stressed the need to prevent deviation of food-aid products by recipients to third markets.

10. In reply, the representative of the EC told the Committees that all possible measures were being taken in order to ensure that the products furnished as food aid were consumed in the countries to which they were donated.

11. The Committees took note of the comments and statements concerning transactions other than normal commercial transactions.

Sales under derogation

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

13. The representative of New Zealand recalled that deliveries under the contract for the supply of 100,000 tons of butter to the USSR had been delayed due to payment difficulties experienced by the USSR. These problems had been partially resolved and total deliveries by the end of December 1991 had only been around 70,000 tons. Further details regarding this sale under derogation and the final figure regarding total deliveries would be notified soon.

14. The representative of the EC explained that mainly due to payment difficulties experienced by the USSR, the fulfilment of the contract for the supply of 200,000 tons had posed difficult problems and shipments had been delayed. Thus, it had not been possible to deliver the quantities initially contracted. Total deliveries by the end of December 1991 had only been 95,500 tons and not 136,500 tons as estimated in the December meeting. A final report regarding this sale under derogation would be notified soon.

15. The Committee of the Protocol Regarding Certain Milk Powders took note of the summary table regarding sales made in accordance with Article 3:5 of the Protocol (DPC/PTL/W/40/Rev.3).

16. The Committee of the Protocol Regarding Certain Cheeses took note of the communication by Australia regarding its exports of low-quality cheese under Article 7:2 of the Protocol (DPC/PTL/W/25/Add.1). The Committee noted that details regarding destinations and prices would soon be notified as required by the Protocol. The Committee also noted the summary table regarding sales made in accordance with that provision (DPC/PTL/W/20/Rev.2).

17. The representative of New Zealand informed the Committee that it would shortly notify sales of 386.4 tons of cheese, under the terms provided for in Article 7:2 of the Protocol, made during the period 1 July to 12 December 1991. Taking into account the sales of 1,098 tons made during the first six months of 1991 and notified in document DPC/PTL/W/62, total sales under derogation would amount to 1,484.8 tons for the period 1 January to 12 December 1991. The representative of the EC expressed continued concern with regard to the use of this derogation by New Zealand and in particular with the observance of the notification obligations by said participant. He recalled that Article 7:2 of the Protocol provided that participants exporting such cheese shall notify the GATT secretariat in advance of their intention to do so.

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

Review of the market situation

European Economic Community

19. The Community dairy market was relatively stable. However, milk producers and processors were rather anxious as they were awaiting the outcome of the Commission's reform proposals to the Council of Ministers and also the outcome of the Uruguay Round.

20. While the results of the 1991 survey of the structure of dairy herds in the EC were not yet known, it was appropriate to recall that the previous survey in 1989 had shown that the number of dairy farmers was declining at the rate of 6.3 per cent per year. The number at the end of 1989 had been 1.4 million, and if the rate of decrease was maintained the number at the end of 1991 could be estimated at less than 1.2 million. Cow numbers were also down to an estimated 22 million head at the end of December 1991, 3 per cent less than in December 1990.

21. The changes in the deliveries of milk and in the production of the main dairy products during the period January to November 1991 were the following as compared to the corresponding period of 1990:

	<u>January to November 1991</u>	
	<u>EC-12 excluding ex-GDR</u>	<u>Ex-GDR</u>
Milk deliveries	- 1.8 per cent	- 31.7 per cent
Production:		
Butter	- 7.0 per cent	- 47.9 per cent
Skimmed milk powder	- 12.9 per cent	- 22.7 per cent
Other milk powders	+ 15.6 per cent	-
Cheese	+ 1.8 per cent	- 52.0 per cent

22. Following the quota cut of 2 per cent which had been decided in June 1991, but with retroactive effect to 1 April 1991, the guaranteed reference quantity for EC-12, excluding ex-GDR, was 97.6 million tons. To this a

further 6.2 million tons should be added for the ex-GDR. Up to November 1991, total deliveries had been about 2.2 per cent below quota. However, while the ex-GDR and Portugal were unlikely to reach their quota, the other member States were expected to reach their quota when the adjustment for fat content increases were taken into account.

23. The tightening of supplies had led to some increases in producer prices, but prices were still well below 1989 levels. The price trends for dairy products varied for the different products. While butter prices had firmed in the October to December 1991 period, reaching as much as 105 per cent of the intervention price in some cases, the prices in January 1992 had been little different from those in January 1991. Skimmed milk powder and whole milk powder prices had increased by about 10 per cent between January 1991 and January 1992. Some cheeses, like Gouda, had registered a decrease in 1991, others, like Cheddar, had shown an increase. Prices of some other products, like whey powder and lactose, had increased considerably in the same period, up to 60 per cent in some member States. Skimmed milk powder prices were now at about 107 per cent of the intervention price, while butter prices were at 92 per cent of the intervention price.

24. Consumption trends were little different from those reported in December 1991. The consumption of drinking milk remained almost static with an increase of a mere 0.1 per cent per year, as whole milk consumption decreased by 2.5 per cent per year while skimmed and semi-skimmed milk consumption increased by as much as 5 per cent per year. Consumption of other fresh products, i.e. buttermilk, acidified milks and milk-based drinks, was increasing by more than 5 per cent per year. Total consumption of liquid milk and fresh dairy products was up by about 1 per cent on 1990.

25. With regard to consumption of butter, the most recent estimates indicated an increase for 1991 in both sales at market prices and in subsidized sales. About 440,000 tons of butter had been absorbed by special schemes in 1991, mostly in the pastry and ice-cream scheme.

Early indications were that this figure would be lower in 1992. Cheese consumption in 1991 was about 2 per cent up on 1990.

26. The consumption of skimmed milk powder was also showing an increase for 1991, mainly due to an increase in the use for animal feed. The subsidized use of liquid skimmed milk for animal feed increased by 53 per cent in 1991 to 1.1 million tons; the use of skimmed milk powder for animal feed increased by 11.5 per cent in the same year to 856,000 tons (or 9.4 million tons of liquid skimmed milk equivalent); the uptake of liquid skimmed milk for casein manufacture increased by 4.6 per cent to 3.8 million tons. Early indications were that uptake in 1992 was showing a decrease in the use of liquid skimmed milk for animal feed.

27. Export performance in 1991 had generally been favourable. Exports of the main dairy products in 1991, with changes in relation to 1990, were the following:

	<u>Quantity (metric tons)</u>	<u>Percentage change</u>
Fresh products	260,100	+ 13.0
Whole milk powder	576,500	+ 22.6
Butter total	186,000	+ 31.9
Of which:		
to USSR	102,500	
Butter oil	80,000	+ 18.0
Cheese	427,100	+ 7.6
Condensed milk	299,200	- 5.8
Skimmed milk powder total	224,800	- 24.3
Of which:		
Food aid	47,000	

28. Intervention buying of butter had reached 174,000 tons in 1991, while almost 164,000 tons had been sold from intervention. Purchases of skimmed milk powder had been about 200,000 tons in 1991 and almost 90,000 tons had been sold from intervention at ECU 1 above the intervention price. As from 1 January 1992 to date, butter purchases had been less than 25,000 tons and no skimmed milk powder had been bought. Purchases of butter in recent weeks had fallen to about 300 tons per week, mainly due to the increased

interest in private storage aid. Butter manufactured since 1 March 1992 was eligible for private storage aid. Skimmed milk powder was also being sold for animal feed in 1992 at about 96 per cent of the intervention price.

29. At present there were 235,000 tons of public stocks of butter and 20,000 tons of private stocks, giving a total of 255,000 tons for butter stocks. Public stocks of skimmed milk powder were at 361,000 tons. Public stocks of cheese were at 2,000 tons, while private stocks stood at 160,000 tons.

30. Estimates for 1992 deliveries and production were difficult to make given that there were no decisions yet on the 1992/93 price proposals and on reform. However, deliveries of milk seemed to be down by about 3 per cent and butter and skimmed milk powder production were also down on 1991 levels.

31. The international market was relatively firm with the exception of butter and butter oil. There were indications that the whole milk powder market had weakened slightly, but that market had been strongly influenced by whole milk powder shipments to the former USSR area in 1991. The recent Mexican tender for skimmed milk powder had helped to maintain the demand in this sector.

32. The present range of calculated export prices on an f.o.b. basis were:

between US\$1,550 and US\$1,700 per ton for both skimmed milk powder and whole milk powder;

between US\$1,400 and US\$1,550 per ton for butter;

between US\$1,800 and US\$1,950 per ton for butter oil;

between US\$1,800 and US\$1,900 per ton for Cheddar cheese.

New Zealand

33. New Zealand milk production in the season ending 31 May 1991 was 7.9 million litres, 3 per cent more than in 1989/90. Milk fat processed by dairy companies in 1990/91 was 342,133 tonnes compared to 330,100 tonnes in 1989/90. The volume of most dairy products manufactured in 1990/91 was similar to that in the previous season, with the exception of increases in whole milk powder and decreases in skimmed milk powder.

34. The New Zealand Dairy Board's final basic price for the 1990/91 season had been set at NZ\$3.70/kg. milk fat in May 1991 compared to NZ\$5.80 in 1989/90. This was an indicative price on which monthly payments to dairy farmers were based during the season, and which could be increased or decreased in line with changes in export prices. The average dairy company farmgate price was set after the end of the season and related to actual returns from sales. In 1990/91, it had been NZ\$4.24/kg. milk fat. In 1990/91 real dairy farm gross revenue had declined by 25 per cent from the previous season. The level of real farm incomes in 1990/91 had been comparable to the economically depressed seasons of 1986/87, 1977/78 and 1970/71. The initial basic price for 1991/92 had also been NZ\$3.70/kg. milk fat. This had been increased to NZ\$4.10 and NZ\$4.70 through the season. The expected final basic price to be announced in May 1992 was expected to be close to NZ\$5/kg. milk fat. Average dairy company farmgate payouts were forecast to be about NZ\$5.25-NZ\$5.50/kg. milk fat.

35. The 1991/92 dairy season had begun well with cows calving in good condition. The northern part of the country continued dry with milk supply limited by lack of feed. In other dairy areas, milk production in early spring had been ahead of the previous season. Wet and cold conditions in October and November had retarded milk output somewhat, but December production had been above average. There had been rain in January and February throughout most of the country, including the North. This had ensured continuation of good milk flows over the remainder of the summer through to the end of the season. Milk production in the current 1991/92 season was expected to increase by 4 per cent on 1990/91. As much as

possible, the additional volume would be absorbed in whole milk powder and cheese manufacture, depending on sales opportunities, and to a lesser extent in butter, skimmed milk powder and casein manufacture.

36. The quantities of dairy products manufactured had fluctuated from year to year with the only strong trend evident being an increase in whole milk powder. Further increases were expected as a new manufacturing plant came on stream and market demand continued strong. Domestic consumption of liquid milk, butter and cheese was still stable.

37. The New Zealand Dairy Board had a policy to encourage the manufacturing of specialized and differentiated products that met specific consumer demand. The Board was putting particular emphasis on marketing in Asian countries. Although these policies were paying off by improving farmer returns, New Zealand would continue to be vulnerable to fluctuations in world commodity prices.

38. As previously advised, the New Zealand Dairy Board Amendment Bill, introduced on 29 October 1991, was currently under consideration in Parliament. It aimed to make the Dairy Board more accountable to farmers. The Board would maintain exclusive control over exports of dairy products, but was able to licence private companies to supply particular products to particular markets. The Bill had provisions for a financial and management performance audit to be completed at least once every five years. Measures were also proposed which more clearly defined the ownership of the Board's assets. A full report would be provided to the International Dairy Products Council when the legislation had been finalized and passed by Parliament.

39. The Milk Act of 1988 that regulated the liquid milk industry would expire in April 1993. The integration of milk for liquid consumption into the larger manufacturing dairy industry was almost complete. Liquid milk processing had been taken over by the manufacturing co-operatives in most areas. Much of the supply was from seasonal suppliers with only winter supply earning higher prices. After April 1993, milk processors would not

be required to operate home deliveries and the price of milk sold at retail outlets would not be controlled.

40. In the first quarter of 1992, international dairy market prices had been steady for milk powders and protein. Butter prices had decreased as northern hemisphere milk production was now at its peak, making more availability. Furthermore, the United States dollar had firmed by about 6 per cent against European currencies, lowering EC export price quotes.

41. Milk supply was dominated by the following factors:

(a) In the European Communities:

(i) Reduced milk output towards the end of 1991 had resulted in lower levels of butter and skimmed milk powder production than in 1990, by 7.4 per cent (100,000 tonnes) and 13.6 per cent (200,000 tonnes), respectively;

(ii) butter availability remained in excess of demand and had led to substantial intervention buying in January/February; and

(iii) increased use of skimmed milk powder for calf feed (+100,000 tonnes over 1990) had assisted in keeping the solids non-fat market in balance.

(b) In other European countries:

(i) Policy changes in Scandinavia had reduced milk production; and

(ii) economic restructuring in East Europe had reduced milk production considerably, thus reducing availability of skimmed milk powder and casein on the international market.

(c) In the United States:

(i) The herd size reduction (-1.4 per cent) and a corresponding increase in cow yields had resulted in milk production in 1991 being about the same as 1990;

(ii) there were no surpluses of milk powder or cheese and therefore no requirement for government support buying;

(iii) increased demand for low-fat milk and dairy products and static demand for butter resulted in a major butter surplus, with Commodity Credit Corporation purchases of butter in January/February at record levels;

(iv) the United States Department of Agriculture had made a butter/skimmed milk powder price adjustment to reflect changes in the market; and

(v) the United States Department of Agriculture was continuing the Dairy Export Incentive Program into 1992. Sales to date had been made principally to Algeria.

(d) In Canada:

(i) Milk production quotas had been reduced due to lower demand for butter.

42. The demand for butter and related products remained weak and unsound as the economic uncertainty in the Commonwealth of Independent States (CIS) limited commercial opportunities. In addition, political instability in Algeria and Venezuela had created uncertainty for butter and whole milk powder, respectively. For skimmed milk powder, stable to strong market conditions existed. In February, Mexico had purchased its 1992 requirements of 150,000 tonnes of skimmed milk powder and 25,000 tonnes of whole milk powder, on top of 50,000 tonnes of skimmed milk powder purchased

in November 1991. The Mexican purchases involved substantial quantities of dairy products from all major suppliers (United States, EC and New Zealand).

43. Export pricing had largely reflected the supply/demand situation (and other factors mentioned above) for the first quarter of 1992:

Butter	US\$1,400-US\$1,450 f.o.b. trend down
Butter oil	US\$1,650-US\$1,700 f.o.b. trend down
Skimmed milk powder	US\$1,600-US\$1,675 f.o.b. trend firm
Whole milk powder	US\$1,600-US\$1,650 f.o.b. trend easy but sound
Cheese - Cheddar	US\$1,850-US\$1,950 f.o.b. trend up
Gouda	US\$1,600-US\$1,700 f.o.b. trend down
Casein	US\$4,000-US\$4,100 f.o.b. trend up

44. The market activity for butter had remained restricted to small trading opportunities, covered variously by supplies from Canada, Eastern European sources or from the European Communities. There had been numerous propositions in the trade about sales possibilities to various parts of the Commonwealth of Independent States, but none of these seemed to have any clear payment backing.

45. Market conditions for butter oil were parallel to those for butter. Significant sales of butter oil had been made by the United States to Algeria under the Dairy Export Incentive Program, but these had been backed by government supported credit. With commercial banks strictly limiting any further financial exposure to Algeria, sales opportunities for exporters not supported by government credit guarantees were virtually non-existent. Aside from Algeria, the main new buying activity had been in Mexico at generally weaker price levels.

46. In sharp contrast to the generally bleak conditions being experienced with butter and butter oil, market activity for skimmed milk powder had been very active, mainly due to the purchases by Mexico. The tight availability of supplies had encouraged firmer forward commitments and had generated favourable expectations about future pricing trends. This had

helped underpin current prices. Though prices were now easier than they had been in the last quarter of 1991, they had not fallen to the extent that many expected.

47. The market conditions for whole milk powder generally had remained closely aligned to those for skimmed milk powder, though there had been some added weakening because of lower fat values. Uncertainty about the amount of product which would be committed by major suppliers to Algeria had caused some disturbance, but apart from this conditions had generally remained quite sound.

48. Market conditions for cheese remained confused. In the case of Cheddar, prices had firmed, mainly as a result of developments in the United Kingdom market. On the other hand, for Gouda, Edam and other Dutch cheeses, prices had eased significantly since the middle of January.

49. Reflecting the relatively tight market conditions for non-fat milk products in both Europe and North America, prices for casein and related products had continued to strengthen through February. In Europe, prices for edible grade casein generally were holding around DM 6,500 per tonne. In the United States, prices were continuing to improve, with new contracts being secured at prices above US\$2/lb. (approximately US\$4,400 per tonne).

Japan

50. Milk production began to rise after its decline since the summer of 1990. During the period October to December 1991, production was about 3 per cent higher than the level for the same period in the previous year. Production during fiscal year 1991 (April 1991-March 1992) exceeded the previous year's quantity (8,203 thousand tonnes). A regional disparity remained, however. In the Hokkaido region, the northernmost and main milk-producing region of Japan, production improved sharply (+9.2 per cent, in comparison with the fourth quarter of 1990), while in the rest of the country production remained stagnant (-0.7 per cent, compared with the fourth quarter of 1990).

51. Demand for fresh drinking milk was at much the same level as in the same period last year (-0.3 per cent, compared with the fourth quarter of 1990). Consequently, since August the quantity of milk destined for the production of dairy products such as butter and skimmed milk powder has been rising steadily and was 9.2 per cent higher compared with the fourth quarter of 1990. With regard to the importation of 11,000 tonnes of butter and 20,000 tonnes of skimmed milk powder, their sale by the LIPC went on until the beginning of 1992. The situation of shortage that had existed until last summer therefore improved due to the rise in domestic production and imports by the LIPC. Dairy product prices were now relatively stable or falling slightly.

52. Imports of skimmed milk powder during the fourth quarter were in the order of 31,000 tonnes, a rise of 35 per cent. Import prices of skimmed milk powder for human consumption were 5 to 8 per cent higher than in the third quarter. Skimmed milk powder prices for animal feed remained relatively stable.

53. Imports of butter increased substantially during the same period for the same reason as imports of skimmed milk powder. The quantity imported amounted to 11,000 tonnes. Import prices were relatively stable or slightly higher than in the third quarter.

54. Cheese imports were rising steadily, with total imports in 1991 15 per cent above those in the previous year (15.1 per cent for natural cheese, 29 per cent for processed cheese). This increase was primarily accounted for again by natural cheese for the manufacture of processed cheese. The situation of declining cheese imports in 1989 and 1990 caused by the rise in world prices had recovered. Import prices were in the order of 4 to 7 per cent higher than in the third quarter.

Hungary

55. In 1991, the overall situation of the dairy sector in Hungary continued to deteriorate. Domestic consumption declined more sharply than in previous years and new problems in traditional export markets

compounded the existing ones. Domestic consumption was substantially reduced by the fall in purchasing power in general and the progressive reduction, followed by the elimination, of the last consumer price supports. According to the latest statistics, consumption of dairy products fell to 150 kg. milk equivalent per capita, a drop of 16.7 per cent compared with 1990. This was a striking regression bearing in mind that the accumulated fall over the previous three years, 1988 to 1990, amounted to "only" 20 per cent.

56. As far as export markets were concerned, there was a further deterioration in the conditions faced by Hungarian exporters. The collapse of trade with the former COMECON countries at the start of the year, and in particular with the former USSR market, was compounded by problems of access to the Yugoslav market. Yugoslavia's balance-of-payments difficulties, followed by the civil war, virtually eliminated this market, previously a major outlet for Hungarian milk and cheese.

57. On the production side, the number of dairy cows declined steadily. In 1991 their number fell by 11.5 per cent from 554,000 to 490,000. This was a continuing trend that set in a few years ago owing to the steady decline in domestic consumption and market access problems. What was new in 1991 was that the reduction in the number of dairy cows was speeded up by the introduction of slaughter premiums. According to the latest estimates, in 1992 the number of dairy cows may be expected to continue to decline, by 4 to 5 per cent.

58. Milk production fell by 7 to 8 per cent in 1991, from 2,763 billion litres in 1990 to 2.5 billion in 1991. A very rough estimate, owing to the instability of the factors involved, was for a further decline of 10 per cent in 1992 milk production to 2.3 billion litres. Failing an improvement in market conditions, and in particular in access to traditional markets, production could fall even further in 1992.

59. With regard to specific products, most indicators were negative for all products except whole milk powder. Production of skimmed milk powder fell from 30,100 tonnes in 1990 to 14,900 tonnes in 1991, a

drop of 50 per cent. Domestic consumption shrank by 45 per cent. Exports also declined by 23 per cent, amounting to only 8,300 tonnes compared with 10,800 tonnes in 1990. In the case of whole milk powder, both production and exports increased, by 37 and 35 per cent respectively, but domestic consumption declined by 9 per cent.

60. For butter, both production and domestic consumption declined significantly. Production in 1991 amounted to 25,100 tonnes compared with 38,100 tonnes in 1990, a drop of over 31 per cent. Domestic consumption fell from 26,200 tonnes in 1990 to 19,500 in 1991, or nearly 26 per cent; but exports rose by 9.7 per cent, from 9,300 tonnes in 1990 to 10,200 in 1991.

61. For cheese, all the indicators were negative for 1991. Production dropped by 19 per cent, from almost 64,000 tonnes in 1990 to 51,900 in 1991. Exports also fell by 33 per cent, while domestic consumption fell by 11.7 per cent.

Bulgaria

62. At this stage, only data for the production and trade of butter and cheese were available. According to preliminary data, in 1991, as a result of the deep economic crisis, price escalation (prices had risen more than six times compared to 1989) and strongly depressed domestic consumption, the output of cheese had continued to decline and reached only 116,500 tons. This was nearly 19 per cent less than the 1990 level and was below the level of 1981. This negative trend on the domestic market would most probably continue, during 1992. The decrease in domestic consumption had resulted in higher quantities available for export. Exports had increased by 33 per cent in 1991 compared to 1990, and reached 23,900 tons. The exports were oriented to Australia, Germany, the United States, Iran, the CIS, Yugoslavia, Turkey and Lebanon. In 1991, only 30 tons of cheeses were imported from France.

63. Imports of skimmed milk powder and whole milk powder in 1991 had been very small. Only 22 tons of skimmed milk powder had been imported from Austria and 20 tons of whole milk powder had been imported from Czechoslovakia and Germany. During the same period, 200 tons of whole milk powder had been exported to Turkey.

64. With regard to butter, increased retail prices had also been the main reason for the strong decrease in domestic consumption. As a result, production diminished by 44 per cent and reached only 12,000 tons, which was by far the lowest level ever registered in Bulgaria. There had been no exports of butter in the period under consideration. Imports had amounted to only 600 tons from Germany and Hungary.

Australia

65. After a slow start, 1991/92 milk production had rebounded strongly. The drought conditions of early 1991/92 had given way to abnormally favourable late spring and early summer seasons. As a result national milk production from July 1991 to January 1992 of 4,520 million litres was 3.5 per cent higher than the corresponding 1990/91 levels. Milk production for 1991/92 was forecast to be 6,500 million litres.

66. National liquid milk sales in July/December 1991 had increased by 2.2 per cent to 880 million litres. This represented a slight increase in per capita milk consumption. The trend towards increased consumption, however, had not been uniform across all milk types. Sales of full cream milk had continued to fall while sales of reduced fat and flavoured milks had risen. Ongoing consumer interest in the growing number of different low-fat milk varieties underlaid the trend towards increased milk consumption.

67. Production of butter/butter oil in 1991 of 193,223 tonnes represented an increase of 1.4 per cent on 1990 levels. 1991/92 production was forecast to be 121,500 tonnes, representing a 9.5 per cent increase on the 1990/91 levels. Exports of butter in July/December 1991 of 32,632 tonnes

had been 63.5 per cent above the corresponding period in 1990. Butter was currently trading at US\$1,400 per tonne, i.e. US\$50 per tonne above the GATT minimum export price. Butter oil exports had risen by 43.3 per cent in July/December 1991 to 16,649 tonnes. Butter oil was currently trading at US\$1,700 per tonne, i.e. US\$75 per tonne above the GATT minimum export price. Increased demand from Asian markets was primarily responsible for these increases in exports. Butter/butter oil stocks at the end of 1991 had been 25,830 tonnes, down 35.5 per cent on the 1990 figure. Domestic sales of butter/butter oil in 1991 had fallen by 7 per cent to 53,677 tonnes.

68. Skimmed milk powder production of 143,794 tonnes in 1991 had been slightly in excess of the 1990 level. Buttermilk powder production had risen by 17.7 per cent in 1991 to 9,968 tonnes. 1991/92 production for skimmed milk powder/buttermilk powder was forecast to be 171,000 tonnes, representing a 9.8 per cent increase on 1990 levels. Exports of skimmed milk powder in July/December 1991 of 46,794 tonnes had been 7 per cent above the corresponding period in 1990. Skimmed milk powder was currently trading at around US\$1,600 per tonne, i.e. US\$400 per tonne above the GATT minimum export price. Skimmed milk powder stocks at the end of 1991 had been 45,357 tonnes, down 24 per cent on the 1990 figure. Domestic sales of skimmed milk powder in 1991 had fallen by 11 per cent to 37,000 tonnes. Buttermilk powder exports had risen 52.5 per cent in July/December 1991 to 5,849 tonnes, reflecting strong overseas demand coupled with a recovery in international prices. Buttermilk powder was currently trading at US\$1,350-US\$1,400 per tonne, i.e. US\$150-US\$200 per tonne above the GATT minimum export price. Buttermilk powder stocks at the end of 1991 had been 2,586 tonnes, down 47 per cent on the 1990 figure.

69. Production of whole milk powder in 1991 of 64,815 tonnes represented an increase of 31.4 per cent on 1990 levels. 1991/92 production was forecast to be 60,000 tonnes, which was approximately the same as the 1990/91 level. Exports of whole milk powder in July/December 1991 of 25,764 tonnes had been 23 per cent above the corresponding period in 1990. Whole milk powder was currently trading at around US\$1,550-US\$1,600 per

tonne, i.e. US\$300-US\$350 above the GATT minimum export price. Whole milk powder stocks at the end of 1991 had been 16,537 tonnes, up 2.4 per cent on the 1990 figure. Domestic sales of whole milk powder in 1991 rose to 18,600 tonnes, well above the 1990 figure.

70. Cheese production in 1991 of 181,041 tonnes had been 3.3 per cent above the 1990 level. Production trends had varied across the major varietal categories. Increased production had been recorded for Cheddar types, fresh cheeses and hard grating cheeses, while production of round eye types, shredding and other cheese types had been lower. 1991/92 production was forecast to be 180,000 tonnes, which was approximately the same as the 1990/91 level. Exports of cheese in July/December 1991 of 32,149 tonnes were 17 per cent above the corresponding period in 1990. Cheddar cheese was currently trading at US\$1,750-US\$1,800 per tonne, i.e. US\$250-US\$300 per tonne above the GATT minimum export price. Cheddar and non-Cheddar cheese stocks at the end of 1991 had been 75,071 tonnes and 13,797 tonnes, respectively, which was similar to the 1990 levels. Domestic sales of cheese had fallen in 1991 by 4.9 per cent to 137,547 tonnes.

71. International prices eased in the beginning of 1992 as a result of the seasonal upswing in EC production combined with the decline in consumption, and the appreciation of the United States dollar against the major EC currencies. Renewed spot activity and the supply/demand balance in the EC had maintained EC wholesale prices at levels considerably above mid 1991, when the market rally had begun. Butter prices had weakened in the beginning of 1992 in line with lower EC wholesale prices. Butter was currently trading at slightly above the GATT minimum export price (US\$1,350 per tonne) at US\$1,400 per tonne. The large EC and United States stocks (approximately 500,000 tonnes) tempered the prospect of any sustained recovery in international prices. Butter oil was currently trading slightly above the GATT minimum export price (US\$1,625 per tonne) at US\$1,700 per tonne. Whole milk powder prices had softened as a result of weaker butterfat prices and were currently between US\$1,500 and US\$1,600 per tonne. Cheese prices were firm in response to tighter availability.

Switzerland

72. In Switzerland, milk deliveries in 1991 were estimated at 3.058 million tons, compared to 2.970 million tons in 1990, an increase of 2.9 per cent.

73. Skimmed milk powder production, consumption and exports increased in 1991 leading to a substantial decrease (by about 20 per cent) of end-year stocks. Export prices for the relatively limited quantities exported in 1991 averaged US\$1,280 per ton f.o.b. Whole milk powder production and consumption increased slightly in 1991, while imports remained stable and exports were nil.

74. Butter production increased by 7 per cent to 34,100 tons in 1991, while imports mainly from the EC and the Nordic countries decreased to some 3,000 tons. Consumption of butter registered a slight increase (by about 2.4 per cent) in 1991, while end-year stocks at 4,300 tons remained stable compared to the beginning of the year.

75. Cheese production registered an increase of 3 per cent in 1991 totalling 133,800 tons. Imports increased by 6.6 per cent to 27,600 tons and this increasing trend seemed to be maintained in 1992. Exports of cheese in 1991 were stable at 61,300 tons. Consumption was estimated to have increased by 4 per cent in 1991 to 96,700 tons. End-year stocks at 26,700 tons were 15 per cent higher than in the beginning of 1991. Average export and import prices in 1991 were respectively at US\$6,470 and US\$6,200 per ton.

Sweden

76. In Sweden, milk deliveries to dairies decreased from 3.43 million tons in 1990 to 3.31 million tons in 1991, a drop by almost 10 per cent. A further decrease by about 3 per cent was expected for 1992. The use of liquid milk for direct consumption decreased only marginally in 1991 despite the abolition of consumer subsidies in the beginning of that year.

The combined consumption of liquid milk and fresh milk products remained relatively stable in 1991 despite the higher consumer prices. Cow numbers decreased to 555,000 head in 1990 and a further reduction by 50,000 head was registered in 1991.

77. Production of skimmed milk powder continued to decrease during the fourth quarter of 1991 compared to the corresponding period of 1990. Total production for 1991 fell by almost 40 per cent on 1990, with exports having dropped by a higher rate. The two main reasons for the decline were the abolition of export subsidies as from 1 July 1991 and the combination of strong demand for fresh milk products and declining milk deliveries to dairies. Total domestic consumption of skimmed milk powder decreased by 5 per cent in 1991 to 22,300 tons. It was forecast that Sweden would not export any significant quantities of skimmed milk powder in 1992.

78. During the fourth quarter of 1991 as well as for the whole year 1991, production and exports of butter decreased while the reduction of consumption was relatively limited. Exports of butter amounted to 22,000 tons in 1991, a decrease by 10,000 tons compared to 1990. A further reduction was expected for 1992. The average export price of butter in March 1992 was US\$1,350 per ton f.o.b.

79. Cheese production decreased by 1 per cent in 1991 to 107.3 thousand tons. No figures were yet available concerning foreign trade during the fourth quarter of 1991, but the estimates were that imports of cheese had increased in 1991 while exports had significantly dropped.

Norway

80. Total milk deliveries for 1991 reached 1,791 million litres, a reduction by 2.5 per cent compared to 1990. This decline was mainly due to a tightening of the two-price system for milk. Further reductions in 1992 of 1 or 2 per cent were also expected as the Government had launched a programme for buying back milk production quotas owned by dairy farmers.

81. Butter production during 1991 decreased by nearly 7 per cent compared to the previous year. This decline was largely due to weak domestic demand for butter and an increasing production of butter oils. A slightly declining production level was expected to continue through 1992. The reduced level of butter production had led to declining exports. Exports were down by 20 per cent in 1991, prices rising slightly, after being at or near the GATT minimum export price in September 1991. Norway had not imported any butter during 1991, nor were any imports expected for 1992.

82. Cheese production in Norway decreased by 6.5 per cent in 1991. This reduction was mainly due to lower milk production. As milk production was expected to continue to decline, cheese production was expected to follow the same trend. Domestic cheese consumption, however, rose by 3.5 per cent during 1991, bringing total consumption to just over 55,000 tons. The higher consumption level, combined with lower production, led to a fairly large decline in cheese exports. Exports were expected to remain at this level or increase slightly during 1992. Imports for 1991 remained stable.

83. Milk powder production and consumption during 1991 remained at their usual low levels. No changes in these production and consumption levels were expected in the foreseeable future. Imports and exports of this product group had been negligible in 1991. This situation was expected to continue through 1992.

Finland

84. In Finland, milk deliveries in 1991 were 9.8 per cent lower than 1990. The reason for this rapid decrease was the milk buy-out scheme implemented in 1990/91, covering 215 million litres of milk. In 1992, deliveries were expected to decrease to 2,280 million litres. This included a new buy-out scheme of 100 million litres. Cow numbers would continue to decline in 1992.

85. Total butter production in September-December 1992, at 13,000 tons, was 6.6 per cent lower than during the corresponding period of 1990. Butter production in 1991 was 59,400 tons (-4.5 per cent). The estimate

for the whole year 1992 was 54,900 tons (-7.6 per cent). Butter consumption in September-December increased by 13 per cent, and during the year 1991, by 14.2 per cent. Butter exports in 1991 were 22,700 tons. Butter stocks in December were some 4,700 tons. It was forecast that in 1992 production would amount to 55,000 tons, with consumption reaching 36,000 tons, and an over-supply of 20,000 tons. Export prices of butter in the fourth quarter of 1991 averaged US\$1,620 per ton.

86. Cheese production in September-December 1991 was 18,900 tons (-12.9 per cent). The production of the whole year 1991 was 84,800 tons. Consumption in 1991 increased by 1.7 per cent and was 64,000 tons. Exports in September-December were 7,800 tons (-5.6 per cent) and exports for the year 1991 were 27,800 tons. Stocks in December were at 8,300 tons. In 1992, the forecasts were: production 87,000 tons, consumption 70,000 tons and over-supply at 23,000 tons. Export prices of cheeses in the fourth quarter of 1991 averaged US\$3,400 per ton.

87. Skimmed milk powder production in September-December 1991 was 3,100 tons (-13.5 per cent). Exports in September-December were 2,400 tons and stocks in December were at 11,400 tons. Total production of 1991 was 19,800 tons, consumption 16,200 tons and exports 6,500 tons. In 1992, forecasted production was 19,000 tons, consumption 15,000 tons and an over-supply of 4,000 tons. Production of whole milk powder in September-December 1991 was 900 tons (-71 per cent). Exports were 1,200 tons (-63 per cent). Production in 1991 was 8,700 tons, consumption 800 tons and exports 10,000 tons. Stocks in December were at 1,200 tons. Estimates for 1992 were: production 8,000 tons, consumption 700 tons, and, an over-supply of 8,000 tons.

South Africa

88. Milk Production in South Africa was in a normal downward phase. This trend was being aggravated by the drought experienced in almost the entire country. The estimated milk intake for the first quarter of 1992 was

around 482,000 tons, which was 10 per cent down from the corresponding quarter in 1991. Around 238,000 tons of milk would be utilized for fresh milk products in the first quarter of 1992, while around 213,000 tons would be utilized for industrial purposes. Consumption for industrial purposes continued to decline at a faster rate than that for fresh milk utilization and this trend was expected to continue in the foreseeable future.

89. Current indications were that around 5.8 thousand tons of skimmed milk powder would be produced in the first quarter of 1992, a 3 per cent decrease from the last quarter of 1991. The total production for 1991 was 18,672 tons, which represented a markable decrease from the production of the previous year. The consumption estimate for the first quarter of 1992 was around 10 per cent lower compared to the previous quarter. Consumption continued to lag far behind production with resultant growing stocks. By the end of March 1992, stocks were expected to be around 60 per cent higher than at the end of December 1991.

90. The production of whole milk powder increased to 2.9 thousand tons in the last quarter of 1991, after a sharp decline in the previous quarter. A slight decline was expected in the first quarter of 1992. Consumption estimates for the current quarter also showed a slight downward trend. The stock position was expected to be around 1.5 thousand tons at the end of March 1992.

91. Butter production was expected to decrease by around 10 per cent in the first quarter of 1992. Consumption was also declining at present, however at a faster rate than production, so that a slight build up of stocks compared to the end of year stocks for 1991 might be expected.

92. The expected cheese production for the first quarter of 1992 was around 9.6 thousand tons, which was about 14 per cent down from the previous quarter. Consumption figures also showed a downward trend, and were expected to be around 5 per cent lower in the first quarter with stocks at around 9,000 tons.

Romania

93. Romanian agriculture was undergoing major changes during the transition period to a market economy. Almost 80 per cent of agricultural land was now privately owned and the private sector accounted for more than three quarters of agricultural output. With regard to inflation, the General Consumer Price Index rose by 323.6 per cent between December 1990 and December 1991. During this period the prices of food products rose by 490.4 per cent, and by even more in the case of certain products; for example, cheese prices were multiplied by 5.8 in one year. On the other hand, the prices of subsidized products rose more slowly; for example, the price of milk for consumption increased by 264 per cent over the year. Total agricultural output fell in 1991. The number of bovine animals declined by 1 million, and the total herd at the end of 1991 amounted to 4.3 million animals.

94. Production and consumption of dairy products changed importantly in 1991. Production declined generally, by between 25 to 33 per cent compared with 1990. Production of milk for direct consumption dropped by 22.6 per cent to 3.9 million hectolitres; that of fresh dairy products dropped by 36.7 per cent to 2.6 million hectolitres; that of butter amounted to 22,800 tonnes, down 30.7 per cent compared with 1990; and production of cheese dropped by 22.4 per cent to 68,100 tonnes. Consumption of various dairy products also declined in 1991. Consumption of fresh milk fell by 23.3 per cent and that of fresh dairy products by 32.3 per cent compared with 1990. Domestic consumption of cheese dropped by 25.4 per cent to 60,100 tonnes, and that of butter by 30.9 per cent to 25,500 tonnes. Consumption of milk powder, however, rose to 5,380 tonnes, 6.7 per cent higher than in 1990.

Poland

95. For the last several years, the number of head of cattle in Poland had been declining as the result of unfavourable price ratios. At the end of 1991, there were 4.5 million cows in Poland which meant a decline by

8 per cent in comparison to 1990. It was expected that this trend would continue during the first half of 1992. Milk yields per cow remained unchanged. In 1991, purchases of milk declined by 24 per cent in comparison to 1990 and reached the level of 7.5 billion litres. In face of the decline of the real incomes of the population, the lack of subsidies and non-intervention of the State in the price-formation process, a market equilibrium in the market of milk and dairy products had been reached. However, the level of consumption had not been that low for years.

96. The output of butter in 1991 reached 190 thousand tonnes, 30 per cent lower than in 1990. It was expected that the declining trend in production of butter would persist and Poland might become a net importer of butter in 1992. The average export price of butter amounted to US\$1,415 per ton f.o.b. in 1991.

97. The decline in butter output exerted an impact on production of skimmed milk powder and of casein, the principal Polish export products. Skimmed milk powder stocks declined by about 50 per cent in 1991 and domestic prices rose above the GATT minimum export price. Whole milk powder prices also rose, and a further price increase should be expected during the first half of 1992. The total output of milk powder in 1991 reached 206,495 tonnes. The average export price for skimmed milk powder for human consumption amounted to US\$1,217 per ton f.o.b.

98. The output of cheeses remained unchanged in comparison to 1990 and this stability should persist during the first half of 1992. A noticeable increase of prices to the level of about US\$2,800-US\$3,000 per tonne had been recorded during the first three months of 1992 on the domestic market. The output of cheeses reached 110,800 tonnes in 1991. The average export price amounted to US\$1,698 per ton f.o.b. in 1991.

Economic Commission for Europe

99. The observer from the Economic Commission for Europe informed the Committees that, in the Russian Federation, reduced cow numbers and the chronic shortage of animal feed resulted in strongly reduced milk yields.

Milk production declined by about 7 per cent while State purchases of milk dropped by 14 per cent. This was even more important than the low production figure as State purchases of agricultural products were, in 1991, still the main source of retail supply to the population. Butter output declined by more than 14 per cent during 1991. Cheese manufacture dropped by 15 per cent and whole milk powder production fell by 11 per cent. Margarine output also showed a decline of 22 per cent. In the Ukraine, dairy cow numbers declined by 10 per cent in 1991 while State purchases of milk dropped by 8 per cent. Butter production fell by 15 per cent in 1991; that of cheese dropped by 12 per cent and output of skimmed milk powder declined by 15 per cent in 1991.

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

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

101. The Committees reviewed the level of minimum prices of products covered by the respective Protocols. An earlier proposal to increase the minimum prices for milk powders was maintained. However, several participants wished to reflect further on the matter as they held some doubts as to the necessity or appropriateness of modifying the minimum export prices at this moment. The present price levels were consequently unchanged.

102. The Committees took note of the comments made and confirmed that the matter would be reverted to at the September meetings of the Committees. However, the matter could be raised at an earlier meeting if so requested.

Relationship between minimum export prices fixed for pilot products

103. The Committees had a preliminary discussion on the relationship between minimum export prices fixed for pilot products. The Committees took note of the background note furnished by Australia (DPC/PTL/W/70).

Participants wanted to reflect further on the matter and it was agreed to revert to it at the September meetings of the Committees in the framework of the annual review of minimum export prices. In order to facilitate the consideration of the matter in the September meetings, participants were invited to furnish background notes in this connection well before those meetings.

Oral report to the Council

104. The Committees agreed that an oral report giving an account of discussions at the present session would be submitted to the Council. This report was later incorporated in the report of the Council (DPC/- series).

Other business

105. Speaking under other business, the representative of Australia said that in late 1991, the EC had introduced a regime which would allow traders to tender for butter from intervention stocks for export only. His authorities understood that the EC decision to reintroduce tendering for export of intervention butter was against the wishes of both EC manufacturers and traders, with both groups seeing it as a return to the system of "a la carte" export refunds. Past experience of "a la carte" export refunds indicated their ability to disrupt normal commercial transactions through the application of one-off refunds, which were set at more generous rates than the prevailing structure; uncertainty was also caused by the ad hoc nature of determining these rates (or in this case tender prices). Efficient producers in Australia, or elsewhere, would be forced to lower prices to match the EC offers. Consequently, EC trading volumes would not necessarily expand, but all suppliers would receive a lower return for their product.

106. The representative of Australia added that his country wished to place on record its ongoing concerns regarding this tendering system which carried the risk that the EC could breach the GATT minimum export prices, given the significant time lags between tendering and shipment and exchange

rate fluctuations that could occur during that period. Australia's concerns in this regard were accentuated by the shortcomings seen in monitoring exporters' adherence to minimum export prices.

107. The representative of New Zealand shared the concerns expressed by Australia.

108. In reply, the representative of the EC pointed out that by signing the Arrangement the participants had undertaken to take the steps necessary to ensure that export prices would not be less than the minimum prices applicable under the Protocols (Article 3:1 of each of the Protocols). There was no commitment under the Arrangement to provide information on the measures taken to ensure the observance of the Arrangement's minimum prices, nor were participants required to disclose certain information which was considered to be confidential. He stressed that the EC was observing the minimum export prices. Moreover, it should be noted that the present system of tendering was better than previous systems as it allowed a control of offers made and even refusal of an offer, since the EC had obligations under the International Dairy Arrangement.

109. The representative of Australia said that he would report the comments of the EC to his authorities. However, he thought that his authorities would not be comforted.

110. The Committees took note of the comments made.

Date of next meetings

111. The next regular sessions of the Committees will be held consecutively on 15 and 16 June 1992, subject to confirmation by the secretariat.