

GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

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International Dairy Arrangement

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

Draft Report of the Fifty-First Session

14-15 September 1992

Introduction

1. The three Protocol Committees held a joint session on 14-15 September 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. Adoption of report on the fiftieth session

B. Information required by the Committees:

(i) Replies to questionnaires:

Questionnaire 2: Milk fat

Questionnaire 3: Certain cheeses

Questionnaire 1: Certain milk powders

(ii) Summary tables

(iii) Other information

C. Transactions other than normal commercial transactions

- D. Sales under derogation
- E. Review of the market situation
- F. Review of the level of the minimum prices under Article 3:3(b)
- G. Oral report to the Council
- H. Date of the next meetings

Adoption of report on the fiftieth session

3. The report of the fiftieth session was adopted, as amended, and distributed in document DPC/PTL/26.

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 1992 to do so without further delay. Participants were also requested to provide all the relevant information concerning the third quarter of 1992 by 11 December 1992, at the latest.

(b) Summary tables

5. The Committees took note of the summary tables based on information provided by participants in Tables A and B of the questionnaire in respect of milk fat (DPC/PTL/W/79), cheeses (DPC/PTL/W/80), skimmed milk powder and whole milk powder (DPC/PTL/W/81). The Committees were informed that these figures would be further updated as soon as more recent information was available.

(c) Other information

6. The Committees took note of the data which the Secretariat had compiled on production, trade, stocks and consumption of dairy products in the United States for the second quarter of 1992 and some forecasts for the third quarter of 1992.

Transactions other than normal commercial transactions

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

Sales under derogation

8. The Committee of the Protocol Regarding Certain Cheeses took note of the information by New Zealand regarding operations under Article 7:2 of the Protocol (DPC/PTL/W/82). The Committee also took note of the summary table regarding sales made in accordance with this provision (DPC/PTL/W/20/Rev.4).

9. The Committee of the Protocol Regarding Certain Milk Powders took note of the information furnished by New Zealand regarding operations under Article 3:5 of the Protocol (DPC/PTL/W/83). The Committee also took note of the summary table regarding sales made in accordance with this provision (DPC/PTL/W/40/Rev.5).

Review of the market situation

10. Participants gave the following reports on the market situation of their respective countries.

European Economic Community

11. The market for dairy products in the Community continued to be firm with supply and demand reasonably balanced. The weakening of the United States dollar had led to a substantial increase in Community export prices

and traders were expressing concern about the difficult export situation. Milk producers and processors remained concerned about the outcome of the Uruguay Round.

12. The regulations resulting from the reform decisions taken in mid-May 1992 had been published in August 1992. There was agreement:

- to extend the quota system for a further seven years;
- to fix the target price for milk and the intervention prices for butter and skimmed milk powder for the years 1993/94 and 1994/95 (1 July to 30 June). The target price for milk would fall from ECU 26.81 per 100 kgs. to ECU 26.47 per 100 kgs. and then to ECU 26.13 per 100 kgs. The corresponding intervention price for butter would fall from ECU 292.78 per 100 kgs. to ECU 285.46 per 100 kgs. and then to ECU 268.14 per 100 kgs. The intervention price of skimmed milk powder would remain unchanged;
- to authorize temporary transfers of quotas up to 31 December;
- to provide funds for promoting consumption in the Community and for expanding the markets for milk and milk products following the suspension of the co-responsibility levy;
- to make definitive the suspension of 4.5 per cent of the guaranteed quantities temporarily suspended in 1988.

13. Other decisions on reform proposals, taken in principle, had to be finalized. These decisions concerned the further quota reductions, compensation for those reductions and premium for cessation of milk production. The codification of the rules on the quota system was expected to be carried out by the end of 1992.

14. The firm market situation had led to the improvement of the prices of most dairy products except whey, and producer prices had strengthened but

they were still below the levels recorded in 1988 and 1989. Intervention purchases had only played a very minor role in 1992. No skimmed milk powder had been purchased and only 34,000 tons of butter had been purchased to date.

15. The prices of butter and skimmed milk powder had peaked in late July and August 1992 and both had, since then, slightly declined. The butter price had peaked at about 94 per cent of the intervention price and skimmed milk powder price at about 115 per cent of the intervention price. The butter price was now slightly below 94 per cent and the skimmed milk powder price had fallen to about 108 per cent of the intervention prices.

16. Milk deliveries were well down on the corresponding levels in 1991, the decrease having accelerated during the second quarter of 1992. The reduced deliveries had an important impact on butter and skimmed milk powder production and to a lesser extent on whole milk powder production. However, cheese production had increased over the first six months of 1992. The changes in the deliveries of milk and in the production of the main dairy products during the first six months of 1992 (as compared to the corresponding period of 1991) and during April to June 1992 (as compared to the corresponding period of 1991) were the following:

	<u>January-June 1992</u>	<u>April-June 1992</u>
Milk deliveries	- 2.3 per cent	- 4.4 per cent
Production		
Butter	- 11.9 per cent	- 14.6 per cent
Skimmed milk powder	- 28.4 per cent	- 29.4 per cent
Other milk powders	- 4.7 per cent	- 2.3 per cent
Cheese	+ 6.8 per cent	+ 6.6 per cent

17. With regard to consumption of various dairy products, consumption of drinking milk and fresh products was increasing at the rate of 1 per cent per year. Consumption of drinking milk, which had been static in the period 1986 to 1989, had shown a slight increase in 1990. However, within

the drinking milk sector the consumption of whole milk was falling by about 2 per cent per year while the consumption of skimmed milk and semi-skimmed milk was increasing by about 5 per cent per year. Butter consumption was declining at about 2 per cent per year while cheese consumption was continuing to increase by about 2 per cent per year.

18. Internal consumption of butter was strongly influenced by the subsidies on butter used by the pastry and ice-cream industries; however, the volumes in 1992 were down by an estimated 16 per cent to 201,000 tons compared to 243,000 tons in the first eight months of 1991. The selling price of intervention butter intended for the pastry industry had been increased from ECU 112 to ECU 120/100 kgs. in June 1992.

19. The use of skimmed milk powder within the Community was also encouraged with subsidies. However, due to the strength of prices in the skimmed milk powder market (about ECU 200/100 kgs. compared to the intervention price of ECU 172.43/100 kgs.) the level of aid on skimmed milk powder used in animal feed had been reduced from ECU 65 to ECU 60/100 kgs. from 17 August 1992. The level of aid on liquid skimmed milk used in the manufacture of casein had already been reduced from ECU 7.94 to ECU 7.00/100 kgs. from 20 July 1992. During the first seven months of 1992, as compared to the corresponding period of 1991, the uptake of skimmed milk powder for animal feed was down by 10 per cent while the use of liquid skimmed milk in the manufacture of casein was up by 27 per cent. In total, the consumption of skimmed milk was about the same as in 1991.

20. Public stocks of dairy products had been run down during 1992 without disturbing the market. About 120,000 tons of butter had been released from public stocks during 1992, mainly for the internal food industry, for food aid to the former USSR and for other export operations. The skimmed milk powder stocks had been reduced by about 340,000 tons, most of it at prices above the intervention price. About 150,000 tons had been sold without restriction on destination at the intervention price plus ECU 1 and about 140,000 tons had been sold for use in animal feed at prices around the intervention price. Other quantities had been used as food aid.

21. At present, there were 160,000 tons of public stocks of butter and 180,000 tons of private stocks, giving a total of 340,000 tons for butter stocks. Public stocks of skimmed milk powder were at 70,000 tons. Public stocks of cheese stood at 7,000 tons and private stocks at 180,000 tons, giving a total of 187,000 tons for cheese stocks.

22. The changes in the quantity of exports of the main dairy products during the first four to seven months of 1992 were the following, as compared to the corresponding periods of 1991:

	<u>Percentage change</u>
Fresh products	+ 4.0
Condensed milk	+ 18.0
Skimmed milk powder	+ 65.0
Whole milk powder	- 9.0
Butter	+ 13.0
Butter oil	+ 14.0
Cheese	+ 5.0

23. The international market for butter and butter oil was weak while the markets for skimmed milk powder, whole milk powder and cheese were firm. However, the present position was seriously distorted due to the very low value of the United States dollar.

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

- between US\$1,700 and US\$1,800 per ton for butter;
- between US\$2,000 and US\$2,200 per ton for butter oil;
- between US\$2,000 and US\$2,170 per ton for skimmed milk powder;
- between US\$2,000 and US\$2,100 per ton for whole milk powder;
- between US\$2,150 and US\$2,200 per ton for Cheddar cheese.

25. The outlook was uncertain. Milk deliveries might continue to increase in certain countries. There was still an important stock of butter in the United States. The Dairy Export Incentive Program was leading to sales of butter oil which depressed butter and butter oil prices in world markets. Future movements in the exchange rates of the United States dollar were difficult to assess and implied considerable uncertainties as to further developments in international dairy prices.

Australia

26. Australian milk production in 1991/92 was 6,731.7 million litres, up 5.1 per cent on 1990/91 levels. Milk production in all Australian States exceeded their 1990/91 levels. The increased production was due mainly to exceptionally favourable seasonal conditions. Cow numbers continued to decline with the national herd estimated at 1.632 million head. Milk production per cow rose by 6 per cent in 1991/92, as a result of excellent seasonal conditions as well as some productivity gains through genetic and feed management. The average national production per cow in 1991/92 was 4,125 litres, an increase of 5.9 per cent on the 1990/91 level of 3,894 litres. The number of dairy farms declined by 3.4 per cent to an estimated 14,450 in 1991/92. As the extremely favourable seasonal conditions of 1991/92 were unlikely to be repeated, the national production forecast for 1992/93 was 6,450 million litres.

27. With increased milk production and little growth in liquid milk consumption, manufacturing milk availability rose by 6.5 per cent to 4,939 million litres in 1991/92. In line with increased international prices, typical farm gate manufacturing prices in 1991/92 rose by 10 per cent to around 20-21 cents per litre. The fresh (market) milk component of national production in 1991/92 was 1,793 million litres, down 2 per cent on 1990/91 levels. Per capita consumption remained steady at 101 litres. The trend of previous years toward lower fat milk continued. Plain white milk sales dropped to 68 per cent of total drinking milk consumption in 1991/92, while low and reduced fat milk sales again increased.

28. Butter production increased by 4 per cent in 1991/92 to 115,680 tonnes, reflecting production responses to improved international prices for milk powders. Butter exports rose by 6.5 per cent in 1991/92 to 59,181 tonnes while domestic sales remained static. In the retail tablespreads market, butter sales were lower than in 1990/91, reflecting strong competition from margarines and the success of new monosaturates (e.g. canola-based tablespreads). Given the general economic climate, 1992/93 domestic sales were forecast to be similar to 1991/92 levels. Year-end butter stocks of 23,700 tonnes were a slight increase on 1990/91 levels.

29. Skimmed milk powder (SMP) production in 1991/92 of 148,500 tonnes represented an increase of 1.3 per cent on 1990/91 levels. Exports of SMP totalled 109,380 tonnes, down 8 per cent on 1990/91 levels. 1991/92 year-end stocks of SMP of around 14,000 tonnes represented a 6 per cent increase over 1990/91. Whole milk powder (WMP) production rose by 16 per cent in 1991/92 to 69,000 tonnes, reflecting an improved market outlook. Year-end stocks of 9,300 tonnes were similar to those of 1990/91. In line with increased production, WMP exports rose to around 55,000 tonnes in 1991/92, and domestic sales also increased slightly in that period.

30. Cheese production in 1991/92 rose by 10 per cent to around 197,000 tonnes, largely as a result of higher levels of manufacturing milk availability. Although Cheddar continued its dominance (130,000 tonnes), production of shredding and hard-grating cheeses increased by 17 per cent and 34 per cent, respectively. Production of fresh cheese rose by 6 per cent to 20,000 tonnes while production of round-eye types was similar to 1990/91 at 6,550 tonnes. Total supermarket sales of cheese were around 96,000 tonnes, an increase of 2 per cent over 1990/91 levels. Imports of cheese rose by 11.1 per cent to 25,004 tonnes, with imports from New Zealand rising by 27.2 per cent.

31. With the exception of butter and butter oil, where prices remained depressed largely because of the situation in Eastern and Central Europe, international prices remained firm. Demand for milk powders was increasing

in a number of key markets, and prices were expected to remain firm. Developments in the European Communities had been important; there had been reduced output overall, and an increase in internal disposals. While internal Community prices appeared to have reached a plateau recently, movements in international exchange rates had continued to put upward pressure on United States dollar denominated export prices. The current international price structure was expected to be maintained at least until the early part of 1993, at which time seasonal factors and EC policy responses to these developments would have an important bearing on market trends. While demand prospects for most products remained reasonably firm, the butterfat market remained depressed and heavily dominated by the situation in the CIS. Increased United States exports at a time of declining import demand had added further downward pressure on the market.

32. International butter and butter oil prices had continued to trade at or near their respective IDA minimum prices of US\$1,350/tonne and US\$1,625/tonne. In mid-1992, United States butter stocks reached 250,000 tonnes; subsequent aid and subsidized sales to the CIS had reduced these to around 180,000 tonnes. In mid-August, Community butter stocks stood at around 175,000 tonnes. A key factor in this ongoing weakness in international butter prices was, of course, difficulties being experienced in Eastern and Central Europe. Indications were that butter prices would remain weak in the medium term.

33. Skimmed milk powder (SMP) was currently trading in the range of US\$1,850-US\$1,900/tonne; this was around US\$600 above the IDA minimum price of US\$1,200/tonne. In 1992, the market for SMP in the European Communities had further tightened. Milk production was down (because of adjustment to the 1991 quota cut and drought conditions in key producing regions), and casein manufacture was up by around 40 per cent in the first half of the year. SMP production in 1992 appeared likely to be down by around 250,000 tonnes on 1991, the lowest level of production for over a decade. This and strong demand by calf feed manufacturers had led to a rapid fall in the level of intervention stocks which, by the end of 1992, were likely to be around 50,000 tonnes, compared to an opening stock of 414,500 tonnes.

Current United States Government stocks were minimal (around 5,000 tonnes). The outlook for the SMP market remained bright, compared to butter. Demand in the international milk powder market was more robust and less dependent on the state of any one market. There were major import markets in all regions including Algeria, Morocco, Mexico, Venezuela, Brazil, the Middle East, and Asian markets such as Japan and the Philippines. Buttermilk powder prices had been drawn upward by the movement in SMP and WMP prices. Spot trade was now occurring in the region of US\$1,500-US\$1,600/tonne f.o.b., which was US\$300-US\$400/tonne above the IDA minimum export price.

34. Whole milk powder (WMP) had been trading in line with SMP at around US\$1,900 per tonne, or US\$650 above the IDA minimum price of US\$1,250 per tonne. General demand for WMP had been firm in the first half of 1992. Venezuela and Algeria, both traditional large scale buyers, had maintained purchases notwithstanding economic and other problems. The EC had announced contracts for delivery of nearly 30,000 tonnes of WMP to the CIS in mid-1992. These shipments were additional to normal EC commercial trade and followed a similar aid parcel of 50,000 tonnes in 1992. For the medium term, the demand prospects were mixed. Algeria, Venezuela and the CIS, key markets for WMP, were facing serious internal difficulties. Counteracting these difficulties, it was likely that there would be continued demand growth in South East Asia, sustained demand in Mexico and good prospects for growth in imports in northern Asia.

35. Cheese prices had steadily increased over recent months and were anticipated to remain firm. Cheddar was currently trading at around US\$1,850/tonne or US\$350 above the IDA minimum of US\$1,500/tonne. The total volume of product traded in international markets in 1991 reached 800,000 tonnes. The growth in international demand for cheese reflected a number of factors including continued growth in per capita consumption in major Western economies, particularly for reduced fat and fresh varieties, a generally steady increase in consumption in Asian markets, and renewed growth in demand in Middle Eastern and North African markets. EC cheese production had increased by around 5 per cent this year but commercial demand had also shown strength. Similarly, in the United States the growth

in cheese production in 1992 of 4 per cent had been matched by the growth in domestic sales. Imports of cheese in the key Japanese market had also been increasing in 1992 with clearances in the first seven months rising by 6 per cent. This increase had occurred despite the adverse impact of the Japanese economic downturn on demand from the food service industry. There had been increased demand for processed products containing cheese. Demand from other Asian markets had also been steadily increasing in line with a gradual increase in per capita consumption and greater willingness to embrace Western style foods. The overall prospects for international cheese prices remained firm with commercial demand expected to maintain its steady upward trend in the coming year.

36. The present range of export prices were:

Butter	US\$1,350-US\$1,400 per tonne
Butter oil	US\$1,625 per tonne
Skimmed milk powder	US\$1,850-US\$1,900 per tonne
Whole milk powder	US\$1,850-US\$1,900 per tonne
Cheese	US\$1,800-US\$1,900 per tonne.

Bulgaria

37. Cheese was the most important dairy product for Bulgaria covered by the Arrangement. Compared to the first quarter of 1992, the output of cheeses increased by 70 per cent in the second quarter and reached 32,300 tons. In spite of this increase, cheese production was lower by 1,000 tons or 3 per cent, compared to the corresponding period of 1991. Exports followed the production trend during the second quarter and increased by 17.7 per cent to 6,400 tons. The main export markets were Turkey, Albania, Germany and Lebanon. During the period under consideration, only 100 tons were imported, mainly from the EC, Turkey and the CIS.

38. In the second quarter of 1992 there were no exports of skimmed milk powder and imports were negligible and there was no trade in buttermilk powder. For this quarter the production of whole milk powder amounted to 400 tons. An additional 65 tons were imported from the EC, Austria, Hungary and the CSFR, while exports of whole milk powder reached 500 tons. The export markets for this product were mainly Jordan and Turkey.

39. Compared to the first quarter of 1992 butter production increased by 30 per cent and reached 3,000 tons. This, however, represented only 40.5 per cent of the production level reach two years ago during the second quarter of 1990. The figures for the first six months of 1992 showed a decrease in production by nearly 3,400 tons or 39 per cent compared to 1991. No exports of butter were registered in the second quarter of 1992, while imports amounted to 800 tons and originated from the EC, CSFR, Austria and the CIS.

Hungary

40. In the first half of 1992, the overall situation of the dairy sector in Hungary continued to deteriorate. Domestic consumption continued to decline and new problems in traditional export markets compounded the existing ones. The collapse of trade with the former COMECON countries was followed by problems of access to the Yugoslav market, previously a major outlet for Hungarian dairy products. Milk production decreased as a result of drought and of declining dairy cow numbers. The reduction in the numbers of dairy cows had been accelerated by slaughter premiums introduced in 1991 and maintained in 1992.

41. With regard to specific products, most indicators were negative for all products. Production of skimmed milk powder fell from 6,000 tons in the first half of 1991 to 4,400 tons in the first half of 1992, a drop of 27 per cent. Domestic consumption shrank by 52 per cent in the period under consideration. Exports also declined by 27 per cent, amounting to only 2,400 tons compared with 3,800 tons in the first half of 1991. Stocks

at the end of June 1992 at only 700 tons were 63 per cent lower than a year earlier.

42. For butter, both production, exports and domestic consumption declined significantly. Production in the first half of 1992 amounted to 9,900 tons compared with 14,000 tons in the corresponding period of 1991, a drop of over 29 per cent. Exports declined by as much as 75 per cent from 6,400 tons in the first half of 1991 to 1,600 tons in the first half of 1992. Domestic consumption fell from 13,300 tons in the first six months of 1991 to 7,200 tons in the first half of 1992, or nearly 46 per cent. Stocks of butter at the end of June 1992 at 2,700 tons were 23 per cent lower than a year earlier.

43. For cheese, production dropped by 15 per cent, from 28,000 tons in the first half of 1991 to 23,800 tons in the first half of 1992. Exports also fell by almost 40 per cent, while domestic consumption increased by 3 per cent in the period under consideration. Stocks at the end of June 1992, at 6,300 tons were almost 40 per cent lower than a year earlier.

Japan

44. Production of raw milk had increased since August 1991, and for the April to June 1992 period it was 3.3 per cent higher than for the same period in the previous year. Production of raw milk during fiscal year 1992 was estimated to be higher than in the previous fiscal year. The demand for drinking milk between April and June 1992 increased only by 0.3 per cent due to cool weather in May and June. For these reasons, raw milk available for producing butter and skimmed milk powder increased by 8.6 per cent over the same period. However, forecasts of the demand for skimmed milk powder in the peak period of summer being higher than the estimated level of production, the Livestock Industry Promotion Corporation (LIPC) imported 17,000 tons of skimmed milk powder in order to ease the tight demand and supply conditions and high prices during the summer. Cheese production had expanded by 4.8 per cent for the April to June 1992 period due to the continuing strong demand.

45. Imports of skimmed milk powder during the second quarter of 1992 increased by 37,000 tons in comparison with the same period of the previous year, partly due to the 17,000 tons of imports effected by the LIPC. Import prices of skimmed milk powder had risen since the first quarter of 1992. In particular, import prices of skimmed milk powder for human consumption increased by 10 to 20 per cent in the second quarter in comparison with the first quarter of 1992.

46. Because of the rising production of milk for processing, the LIPC had not imported butter in 1992. Therefore, imports of butter during the second quarter were far below those of the same period in 1991. Import prices of butter had risen since the first quarter of 1992. The LIPC's imports of 17,000 tons of skimmed milk powder announced in April 1992 had already been released onto the market. The demand and supply conditions for dairy products had been stabilized as a result also of the rising production of milk for processing.

47. Imports of both natural and processed cheeses were increasing. Processed cheese imports increased by 29.3 per cent in the second quarter of 1992, partly due to "Cheese Fairs" held by some countries during that period. Imports of natural cheeses increased by 10.9 per cent over the same period mainly due to the strong demand for table cheeses despite less favourable economic conditions. According to certain unofficial reports, imports of natural cheeses for preparing shredded cheese for pizza were increasing sharply. Import prices for both natural and processed cheeses were unchanged in the second quarter in comparison with the previous quarter.

New Zealand

48. Following the generally favourable weather conditions experienced during the 1991/92 dairying season, New Zealand had suffered from the other extremes of a severe winter with repeated unseasonable heavy snowfalls which had caused major stock losses among South Island sheep producers. The worst effects of the adverse weather had, however, largely by-passed

North Island dairying areas where the new 1992/93 production season was now getting under way. Despite colder temperatures and wetter weather than last season, production had got away to a reasonably good start. Depending on production conditions in the latter part of the season, production was expected to be no better than last year and probably will be lower, in the region of 355-365 million kgs. of milk fat.

49. The pattern of product mix changes of recent years had been well established. Production of whole milk powder was expanding as market circumstances allowed, as was cheese but at a lower rate. The production of butter and related products, and casein, was forecast to decline in 1992/93. Despite this the industry remained heavily dependent on butter output which accounted for over 60 per cent of all milk fat.

50. With regard to stocks, the availability of whole milk powder and skimmed milk powder remained extremely tight. All last season's production had been committed early. The New Zealand Dairy Board had entered the current season with fresh production being required immediately to meet commitments. No lessening of pressure in rationing supplies to maintain service to regular customers and established markets, was foreseen for the remainder of the year. The 1991/92 season had ended with some excess inventories of cheese and casein (6,000-8,000 tonnes each). These stocks were modest and not regarded as a problem in light of the current season's product mix and market outlook. The position for butter was less satisfactory with ending season stocks around 40,000 tonnes higher than desired. This butter was of a type likely to be sold to the former USSR.

51. With regard to farmgate prices, the New Zealand Dairy Board's final value for manufacturing milk in 1991/92 was NZ\$5.20/kg. milk fat, while the weighted average payment to farmers by dairy companies was NZ\$5.84/kg. milk fat. These prices were higher than the previous season but lower than the 1989/90 payout of NZ\$5.80/kg. milk fat. In real terms measured against 1992 dollars, the 1991/92 payout was still significantly below the level of income derived from dairy exports in the period 1981-86, e.g. NZ\$6.56/kg. milk fat (inflation adjusted) in 1981/82.

52. International dairy market conditions were substantially better than they had been a year ago and presented a sharp contrast to conditions prevailing as recently as the second half of 1990. Conditions were not, however, uniformly favourable. Prices for skimmed milk powder were high and buoyant. These had underpinned firm prices and market conditions for related products such as whole milk powder, casein and cheese. On the other hand, markets for butter, butter oil and related products were still under stress though superficially stronger in recent months.

53. The most crucial factor underlying the improvement in market conditions had been developments within the EC on which the Community representative had commented. The firming of export prices over the last six months could be accounted for by movements in price levels within the Community; exchange rate influences and in the case of casein and skimmed milk powder, reductions in subsidy levels as they affected export prices. These factors had, and could be expected to continue to have, an important bearing on pricing levels. They underscored the important influence of Community policies on international market prices.

54. By comparison, United States influences on the market had been limited but still significant. While the volume of United States exports this year had not been especially large compared to some previous years, much more active use of the Dairy Export Incentive Program (DEIP) had changed the nature of United States involvement in the market. Activity had been concentrated in two base products, skimmed milk powder and butter/butter oil. In the case of skimmed milk powder, United States export sales under the DEIP had been a significant factor in buoying up the domestic United States market for milk powder and cheese. New Zealand noted with concern and regretted that a further 20,000 tonnes of milk powder has just been made available under the DEIP to Algeria. Whether the item was wheat or dairy products, the effects of the subsidy programme were just as pernicious. In the case of butter, the major United States influences had been confined to Algeria and the former USSR. Other factors of significance included the cut-back in supply and export availability of milk and dairy products from Scandinavia and Central Europe including Poland, e.g. in skimmed milk powder.

55. Demand influences had continued to be of lesser significance than supply-side factors. Demand for most products had been steady to firm, generally increasing for milk powder and to a lesser extent for cheese, but still limited and tending to contract for butter. Despite this, there had been significant local or regional developments including major buying activity in Algeria, Mexico, Japan and Argentina.

56. A negative factor of major significance was the uncertainty surrounding the commercial import requirements for butter in Russia and other members of the CIS. This had the potential to influence a broad range of markets and prices if traditional trade outlets remained blocked.

57. A key influence on international price levels over the last six months had also been the progressive weakening of the United States dollar, now 19 per cent lower than a year ago. This had, of course, artificially boosted international market price levels expressed in that currency, giving the impression of a larger movement in "real" price terms than had actually occurred. This was relevant for the IDA minimum export prices and the issue should perhaps be examined once again.

58. Export price ranges for the third quarter of 1992 were unusually wide. Powders continued to sell at well in excess of the current minima. The present range of export prices on an f.o.b. basis were:

Butter	US\$1,400-US\$1,700
Butter oil	US\$1,650-US\$1,950
Skimmed milk powder	US\$1,800-US\$2,050
Buttermilk powder	US\$1,600-US\$1,900
Cheese	US\$1,800-US\$2,200

Poland

59. In the second quarter of 1992, deliveries of milk to dairies continued to decline. After the abolition of subsidies to the production of milk and processed products, market prices had sharply increased and consumption had

registered substantial declines. The recent drought conditions might result in further important increases in market prices.

60. The output of butter in the second quarter of 1992 reached 43,300 tons, 23.6 per cent lower than in the corresponding quarter of 1991. All the butter produced in that quarter was used for internal consumption. Imports of butter in the period under consideration reached 1,000 tons. The average import price amounted to US\$1,737 per ton.

61. The output of skimmed milk powder in the second quarter of 1992 reached 39,700 tons, a decrease of 8 per cent compared to the corresponding period of 1991. Production of whole milk powder in the same period amounted to 14,100 tons, 40 per cent lower than in the corresponding quarter of 1991. However, total production of skimmed milk powder and whole milk powder at 53,800 tons in the second quarter of 1992 was as much as 53 per cent higher than in the first quarter of 1992. Total consumption of milk powder in the second quarter of 1992 declined by 27 per cent in comparison to the corresponding quarter of 1991. Stocks of milk powders at the end of June 1992 were nil. The sharp decrease in domestic consumption had resulted in higher quantities available for export and exports of skimmed milk powder amounted to 20,800 tons in the second quarter of 1992, an increase by 68 per cent over the corresponding period of 1991. Domestic prices of milk powders increased and were well above the respective GATT minimum export prices. The average export prices for skimmed milk powder and whole milk powder amounted, respectively, to US\$1,442 per ton f.o.b. and US\$1,597 per ton f.o.b.

62. The output of cheeses in the second quarter of 1992 reached 23,300 tons, a decrease by 12.4 per cent compared to the first quarter of 1991. Exports and imports of cheese in the second quarter of 1992 reached, respectively, 500 tons and 6,000 tons. Average export and import prices were, respectively, US\$2,054 per ton f.o.b. and US\$2,774 per ton c.i.f.

Romania

63. The fall in milk and dairy production recorded in 1991 continued during the first seven months of 1992. During that period and in comparison with the corresponding period of 1991, production of milk for direct consumption dropped by 8 per cent; that of fresh dairy products dropped by as much as 53 per cent; butter production decreased by 7 per cent and production of cheese dropped by 35.3 per cent. In the second quarter of 1992, only 400 tons of whole milk powder, 200 tons of butter and 800 tons of cheese were imported and an insignificant amount of cheese exported. Exports of milk for consumption, powdered milk and butter, continued to be prohibited.

64. The decline in the production was mainly due to the difficulties related to the transition to a market economy. Moreover, the number of bovine animals had declined in 1990 and 1991. Consumption decreased substantially as a result of inflation and of the deterioration of purchasing power of the population. With regard to inflation, the Consumer Price Index for dairy products rose by 909 per cent between October 1990 and March 1992, while in the same period the General Consumer Price Index rose by 724 per cent and the Index of wages rose by 448 per cent. As from 1 May 1992, production subsidies for dairy products had been reduced by 25 per cent. A further 25 per cent reduction envisaged as from 1 September 1992, had been deferred due to strong social pressures.

South Africa

65. Milk production in South Africa had been decreasing on a continuous basis and the outlook for the present dairy year was for a decrease by 5 per cent over the previous dairy year. It was therefore forecast that the stocks of dairy products, built up on the peak season during the summer, would not be sufficient for the rest of the year. The reason for this shortage was the abnormal drought in almost the entire country. The current estimate of production and total utilization of milk for 1992/93 was 1,826,857 tons and 1,904,296 tons, respectively.

66. Cheese production for the third quarter of 1992 was estimated at 9,038 tons, 9.5 per cent higher than in the second quarter. For the first three quarters of 1992, production of cheese was running below that of the corresponding period of 1991. Consumption was expected to continue to decline. Consumption of cheese during the third quarter was estimated at 9,430 tons, 4 per cent lower than in the corresponding quarter of 1991. For the first three quarters of 1992, consumption of cheese was running at almost 10 per cent below the corresponding period of 1991, mainly due to the unfavourable economic climate.

67. A shortage in the supply of butter was expected for the rest of the year as a result of the decrease in the production of fresh milk. Therefore, at least 1,000 tons of butter would have to be imported. The estimated production and consumption of butter for the fourth quarter of 1992 was 2,548 tons and 4,031 tons, respectively. Butter production in that quarter would be 26.4 per cent lower than in the previous quarter. In contrast with the latter, consumption of butter was estimated to be 11.26 per cent higher than in the previous quarter. Production for calendar year 1992 was expected to decline by 25 per cent over 1991 while consumption in 1992 might increase by 5 per cent compared to 1991.

68. Indications were that 3,164 tons of skimmed milk powder would be produced in the third quarter of 1992. This increase over the 2,804 tons produced in the second quarter of 1992 was a typical trend. The consumption estimate of skimmed milk powder for the third quarter was around 3,561 tons. It was furthermore estimated that stocks would be at 801 tons at the end of September 1992, 70 per cent lower than at the end of June 1992. Production of whole milk powder was expected to decrease by 14.7 per cent in the third quarter of 1992 compared to the second quarter of 1992. Consumption estimates for the July-September 1992 quarter, however, showed an increase of 6.5 per cent compared to the second quarter of 1992.

Finland

69. Milk deliveries during the first half of 1992 were 5.8 per cent lower than in the corresponding period of 1991. In June and July 1992, deliveries were, respectively, 1.3 per cent and 1.7 per cent lower as compared to the corresponding months of 1991. The reason for the decrease was the new milk buy-out scheme in the period March to June 1992. The buy-out scheme totalled 107 million litres of milk. In 1992, deliveries were expected to decrease to 2,260 million litres. For 1993, a further decline to 2,250 million litres was forecast.

70. Butter production in January-June 1992 was 8.6 per cent less than during the corresponding period of 1991. The estimate for the whole year of 1992 was 54,000 tons, down by 8.6 per cent. Butter consumption in January-June decreased by 12.1 per cent. The estimate of consumption for the whole year was 36,000 tons (- 6.2 per cent). Finland had exported some 7,000 tons of butter in January-June 1992. Butter stocks in July were some 8,800 tons. Estimates for butter exports in 1992 were 19,000 tons. Forecasts for the year 1993 were for production of 54,000 tons, consumption at 36,000 tons and exports of 19,000 tons. Export prices of butter in the third quarter of 1992 were between US\$1,550-US\$1,600 per ton f.o.b.

71. Cheese production in January-June was 45,000 tons, up 1.4 per cent. The estimate for the whole year was 86,000 tons. Consumption was increasing at 3 per cent, and was estimated to reach 71,000 tons. Exports in January-June had increased by 11 per cent to 12,000 tons and the estimated exports for the year 1992 were 24,000 tons. Stocks in June were 8,900 tons. The forecasts for 1993 were for production of 86,000 tons, consumption at 72,000 tons and exports of 23,000 tons. Cheese export prices during the third quarter of 1992 were between US\$3,000 and US\$4,000 per ton f.o.b.

72. Skimmed milk powder production in January-June declined by 33 per cent to 6,800 tons. Exports in January-June were 2,800 tons and stocks in June were 8,000 tons. The total production for 1992 was estimated to be

15,000 tons, with consumption of 13,000 tons and exports of 4,000 tons. The forecasts for 1993 were for production of 16,000 tons, consumption at 14,000 tons and exports of 2,000 tons. Export prices of skimmed milk powder in the third quarter of 1992 were around US\$1,500 per ton f.o.b. Production of whole milk powder declined by as much as 75 per cent to only 1,700 tons in January-June 1992, compared to the same period in 1991. Exports in that period amounted to 1,200 tons. Estimated production for 1992 was 3,500 tons with consumption of 500 tons and exports of 3,000 tons. Stocks in June were 1,400 tons. Estimates for 1993 were for production of 500 tons, consumption at 400 tons and exports nil. Export prices during the third quarter of 1992 were between US\$1,600 and US\$1,650 per ton f.o.b.

Norway

73. Total milk deliveries in Norway during the first six months of 1992 were 1 per cent lower compared to the corresponding period of 1991. Deliveries were expected to decline somewhat during the rest of the year and should be around 1,775 million litres for the entire year.

74. Butter production decreased by 10 per cent during the first half of 1992. This was partially a result of the decline in milk deliveries as well as increased butter oil production. This lower production level for butter was expected to continue throughout 1992. Domestic consumption of butter was down by 7 per cent during the first half of 1992, but this decline was also expected to abate somewhat during the remainder of the year. Norway had exported 3,764 tons of butter during the first half of 1992, most of it to Switzerland.

75. Cheese production decreased somewhat in the first half of 1992 compared to the same period of 1991. However, total production for 1992 should be at about the same level as the previous year. Cheese consumption declined somewhat in the first half of 1992 but was expected to rise in the second half of the year so that total consumption for 1992 would remain stable compared to 1991. Imports of cheese increased by 2 per cent during the first half of 1992 compared to the same period of 1991. Exports also

increased during the first six months of 1992. Norway had so far exported 7,215 tons of cheese, mainly to the EC, Japan and the United States. Total exports should be around 25,000 tons for 1992, a slight increase over the previous year.

76. The market situation for skimmed milk powder was normal. A limited amount of skimmed milk powder had been exported during the first half of 1992, most of it to Switzerland. There had been no substantial import of milk powders during the first half of 1992.

Sweden

77. In the first six months of 1992, milk deliveries to dairies decreased by approximately 5 per cent compared to the corresponding period of 1991. As a consequence, dairies reduced their production of milk powders, butter and cheese. For the year 1992, milk deliveries were expected to decrease by 2 per cent, mainly due to a further decline in dairy cow numbers and to a bad fodder situation as a result of the drought this summer.

78. As a result of the declining milk production, butter production was declining. In the second quarter of 1992, butter production amounted to 10,900 tons, a decrease of 19 per cent compared to the corresponding period of 1991. Definitive figures were not yet available concerning foreign trade during the second quarter of 1992, but preliminary information indicated a decrease in exports of butter by almost 36 per cent. The average export price of butter in early September 1992 was US\$1,475 per ton f.o.b.

79. Cheese production decreased slightly in the second quarter of 1992 and amounted to 27,200 tons compared to 27,600 tons during the same period of the previous year. For the year 1992, production was expected to be slightly below the previous year's level. No figures were yet available concerning foreign trade during the second quarter of 1992, but according to preliminary information, exports had decreased. Stocks at the end of the second quarter of 1992 were slightly above their level at the end of June 1992.

80. Production of skimmed milk powder decreased by 15 per cent in the second quarter of 1992 compared to the corresponding period of 1991, from 12,400 tons in 1991 to 10,500 tons in 1992. Exports during this quarter amounted to 1,900 tons compared to 12,800 tons during the same period of 1991. For the year 1992, production was estimated at 27,100 tons, a decrease by 14 per cent compared to 1991. Stocks at the end of June 1992 amounted to 5,300 tons compared to 2,900 tons at the end of June 1991.

Switzerland

81. In Switzerland, milk deliveries in the first seven months of 1992 were estimated at 1,821,000 tons compared to 1,878,000 tons in the corresponding period of 1991, a decrease of 3 per cent.

82. Butter production decreased by 1.5 per cent to 19,800 tons in the first half of 1992 while imports, mainly from the EC, decreased by 37.5 per cent to 1,530 tons. Consumption of butter remained stable in that period while stocks at the end of the second quarter of 1992 at 7,400 tons were 17 per cent lower than a year earlier.

83. Cheese production decreased by 2.8 per cent to 65,500 tons in the first half of 1992. Exports increased by 5.5 per cent to 30,500 tons in the period January to June 1992, while imports decreased by 5.3 per cent to 12,500 tons. Consumption of cheese decreased by 10.8 per cent to 47,000 tons in the period under consideration. Stocks of cheese, estimated at 26,000 tons on 1 July 1992 were 17 per cent higher than on 1 July 1991.

84. Skimmed milk powder production decreased by 14.2 per cent to 16,900 tons in the first half of 1992 compared to the first half of 1991. Exports in that period amounted to 5,500 tons, a decrease by 6.8 per cent compared to the first half of 1991. Export prices averaged US\$2,025 per ton f.o.b. in the second quarter of 1992.

Argentina

85. The representative of Argentina informed the Committees that the reply to Questionnaire 5, recently submitted to the Secretariat, contained information on domestic policies and trade measures. This reply would soon be distributed as document DPC/INV/5/Add.9.

86. In foreign trade, the trend had changed radically. The high level of costs was causing serious difficulties in the dairy sector, preventing the flow of exports from continuing. At the same time, the recovery in domestic consumption had led many companies to opt for increased imports rather than giving the price incentives which producers needed if they were to supply this increased demand.

Canada

87. The following information was provided by the observer of Canada. Industrial milk and cream production in the first ten months of the 1991/92 dairy year (1 August 1991-31 July 1992) was 36.3 million hls. down from 36.6 million hls. in the corresponding period of the previous dairy year. Annual industrial milk and cream production was forecast to be close to 43 million hls., which was a drop of 2 per cent from last year's level. Total milk and cream production was 59.2 million hls. after ten months in 1991/92, 0.4 per cent lower than the corresponding period of the previous year.

88. Butter production was expected to decline in the 1991/92 dairy year and could fall further in the following year. Domestic disappearance for the first ten months of the dairy year at 67,900 tons was 8.4 per cent below year earlier levels. Domestic disappearance for the dairy year would likely be close to 80,000 tons. Exports of butter would likely be above 12,000 tons in 1991/92.

89. Skimmed milk powder production was also expected to decline from 80,000 tons in 1990/91 to an estimated 74,000 tons in the current dairy year. Exports of skimmed milk powder in the first ten months of the

1991/92 year were 51,000 tons, up 48 per cent from the same period the year before. The Canadian Dairy Commission (CDC) had indicated that they were virtually sold out.

90. Cheese production was expected to increase slightly, by less than 2 per cent to about 117,000 tons. Exports of Cheddar cheese for the first ten months were 48 per cent higher than in the previous year, at 8,351 tons. Almost all of the increase had come from higher exports to Japan. Domestic disappearance over the same period was 84,700 tons down by 4 per cent. Production of specialty cheese was 125,300 tons during the first ten months of the dairy year, up by 5 per cent. Domestic disappearance increased by 1 per cent in the same period.

91. According to recent estimates, consumption of milk for liquid purposes was expected to rise slightly in 1991/92. Most of this increase would come from the continued popularity of low-fat drinking milk with a milk fat content of only 1 per cent. After ten months in the dairy year, sales of this product rose by about one third. At the same time, sales of skimmed milk rose slightly, while sales of standard (whole) milk declined by 8 per cent.

92. Target returns to producers for industrial milk for the 1992/93 dairy year were maintained at Can\$49.76 per hl. Last year, an additional Can\$0.16 was added to the target return to cover a Can\$0.14 levy to assist in financing the carrying charges associated with the marketing of butter and a Can\$0.02 levy as processor contribution to a rebate fund for food manufacturers using dairy ingredients. This year, the butter carrying charges were reduced to Can\$0.08 because of a reduction in necessary stocks to meet domestic market demands and a reduction in interest rates. The final target price would thus be Can\$49.86, a reduction of Can\$0.06 compared to the last dairy year.

93. The support price for skimmed milk powder would remain unchanged at Can\$3.304 per kg. and the support price of butter would be reduced by Can\$0.014 to Can\$5.317 per kg. because of the reduction in carrying charges. Another pricing change related to consumption patterns, had been

the introduction of multiple component pricing. The new multiple component pricing would price raw milk based on its content of butterfat, protein and other solids. This system was applied in January 1992 in Ontario and in August 1992 in Quebec. Also, as of 1 August 1992, the Market Sharing Quota for industrial milk was reduced by 3 per cent. Production quotas had fallen by more than 10 per cent over the last three years.

Economic Commission for Europe (ECE)

94. The observer from the Economic Commission for Europe informed the Committees that, in the Russian Federation, the reduction in cow numbers and in milk yields (respectively by 5 per cent and 14 per cent) had led to a related fall in milk output. During the period January to June 1992, milk production declined by about 18 per cent compared to the corresponding period in 1991. State purchases of milk dropped by 27 per cent during the same period. It was estimated that per capita milk consumption might fall back to its level in the early sixties of about 250 kgs. per capita.

95. During the first six months of 1992, butter production remained practically stagnant but cheese production dropped by 15 per cent and sharp declines (by about 48 per cent) were registered in the whole milk products sector.

96. The Russian Government was apparently counting on large imports in 1992 to cover its food needs. For instance, imports should cover about 20 per cent for cereals; 14 per cent for meat and meat products; 43 per cent for sugar; 36 per cent for vegetable oils and finally about 23 per cent for butter. Given the severe budgetary problems and the chronic lack of hard currencies, there were some doubts as to whether all these import requirements could be met.

Food and Agriculture Organization (FAO)

97. The observer from the Food and Agriculture Organization provided to the Committees information on consumption trends. With population growing slowly, total food consumption in the group of the developed countries at

the end of the century would be only slightly higher than in the late 1980's. As non-food use, particularly feed use, was expected to decrease, total consumption of milk and milk products in this group of countries could even decrease. In the developing countries, total consumption of milk and milk products was projected to grow by some 30 per cent between the late 1980's and the year 2000. This would be equal to 37 per cent of the global total, compared with their share of 79 per cent of global population. In fact, though increasing slightly to 37 kgs., average consumption per caput in developing countries would still be less than a fifth of the level in the developed countries. Growing population and urbanization, coupled with some increase in average incomes, would be the main factors behind the expansion of total consumption. Response to changes in incomes would remain high in all developing regions. With economic growth projected to be the most pronounced in Asia, this continent was likely to see the fastest expansion in the consumption of milk and milk products. In Africa and Latin America, average per caput consumption was projected to decline further in the 1990's. Throughout the developing regions, urban consumption levels were likely to remain above those in rural areas. Generally, differences in consumption levels among income groups would tend to widen. In fact, for a large, and perhaps rising proportion of total population in the developing regions, milk and milk products would probably remain luxury items. Finally, reflecting changes in domestic agricultural and food policies as well as reduced availabilities under food-aid programmes of developed countries, special distribution of milk products aimed at vulnerable and low-income groups of the population was also likely to be reduced.

98. 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)

99. In conformity with Article 3:3(b) of each of the Protocols, the Committees reviewed the minimum export prices for products covered by the Protocols. New Zealand had submitted a written proposal well in advance of

the meeting to increase the minimum prices specified under the Protocol Regarding Certain Milk Powders by US\$200 per ton f.o.b., indicating that such an increase was fully justified in light of the criteria of Article 3:3(b) (DPC/PTL/W/78). Some participants supported this proposal and urged immediate implementation. They noted that current IDA minimum prices for powders were too low to guarantee a viable return to the most economic producers. They further noted the long-term and sustained upward trend in the prices of milk powders and expressed their concern over the substantial difference between market prices and the IDA minima. However, others felt that the upward trend in the prices was largely due to the decline in the United States dollar and that in light of the monetary uncertainties and the changes in the production and consumption patterns in certain countries, it would not be appropriate to modify minimum export prices at this time. Consequently, the present minimum export prices for the pilot products covered by the three Protocols were maintained unchanged. The Committees agreed to revert to this item at a later meeting upon request by a participant.

100. The representative of New Zealand recalled that his country had a strong interest in the subject. New Zealand had submitted a written proposal well in advance of the meeting to increase the minimum prices of milk powders and was very disappointed that it had not been possible to reach a consensus on this matter at this time. New Zealand's proposal had gained strong support from several participants and his delegation believed that the arguments advanced were sound. His delegation was worried that the inability to reach a consensus at this stage raised questions about the integrity of the Arrangement and the minimum price mechanism. All participants faced a challenge of making this Arrangement dynamic, effective and relevant to the international dairy market. New Zealand intended to continue to pursue this question through bilateral and multilateral consultations and in light of further results, wished to revert to it at a later stage, probably in the next regular meetings in December 1992 or at an earlier meeting.

101. The representative of Australia stated that he also wished to record the Australian delegation's disappointment at the outcome of this discussion. Australia was disappointed that there had been no consensus on this matter and that fundamental differences were remaining. After a long and careful consideration, Australia believed that New Zealand's proposal warranted full support. It was true that the recent weakening of the United States dollar had an impact on international price levels for dairy products. However, when that effect was discounted, it could be seen that world prices, particularly of milk powders, had followed a long-term upward trend. He believed that an increase in the minimum prices of milk powders was fully justified in light of the criteria of Article 3:3(b), and particularly in light of the evolution of the international market situation. It gave rise to concern that some delegations had expressed views which seemed to Australia to run contrary to the objectives of the Arrangement as a stabilization arrangement setting a floor to the market against sharp and short-term downward fluctuations. The objective of the Arrangement was to create stability in the market, in the mutual interests of producers and consumers. The representative strongly disagreed with the views expressed by some delegations that the International Dairy Arrangement was a support arrangement. He also strongly disagreed with the views of some delegations that production responses in market-oriented countries were based on IDA minimum prices. The representative of Australia concluded by reiterating his disappointment on this particular matter.

102. The representative of the European Economic Community stated that the Community had not shared the views of some delegations that minimum prices for milk powders had to be increased. The Community had taken this position for the following reasons. First, the Community believed that an increase in the minimum prices would be a wrong signal to send to the world market which might be interpreted as an incentive for producers in certain countries to increase further their production. In this connection, the representative of the Community mentioned a recent report of the United States Department of Agriculture according to which New Zealand was expecting record milk production of 8.3 million tons in 1992 while EC

production was expected to fall in 1992 by more than 1 million tons, a decrease of 2 per cent. In addition and according to the figures provided by New Zealand, the number of dairy producers in New Zealand had increased by 4.25 per cent between 1983 and 1989, the number of dairy cows and deliveries of milk had increased by 18 per cent between 1984 and 1992. On the other hand, in the Community, the number of dairy producers had dropped by 27 per cent between 1983 and 1989; the number of dairy cows had declined by 14.3 per cent and deliveries to dairies had decreased by 12 per cent between 1984 and 1992. Furthermore, the Community believed that an increase in the minimum prices would have a stimulating effect because it would bring about a shift from the production of sheep toward dairy production in New Zealand. In his statement, the Australian representative had already highlighted the stabilizing effects of minimum prices as set out in the Arrangement. The Community believed that the real stabilizing effects for production and therefore for international trade as well, were solely achieved by discipline at the production level. The Community and all the other Western European countries had contributed to this stabilization by substantial reductions in their milk production. Indeed, minimum prices did have a stabilizing effect at the time when market prices might fall below that minimum level. However, when market prices were very high, the minimum price mechanism would not play a stabilizing role and for that reason the Community held some doubts as to the necessity of modifying the minimum export prices at this moment.

103. Furthermore, the Community did not agree that there was a sustainable upward trend in international prices as it felt that this upward trend in prices was largely due to the decline in the United States dollar. This situation might change rapidly and the trend could be reversed. The second element which had contributed to the firmness of the market situation was the unexpected large purchases of milk powders by Mexico, Venezuela, Brazil and Argentina. This situation also could change rapidly and the demand might weaken. Hence, in light of the monetary uncertainties and the changes in the demand, production and consumption patterns in certain countries, it would not be appropriate to modify minimum export prices at this time.

104. The third argument advanced by the Community was with respect to the price relationships between skimmed milk powder and whole milk powder. For the time being, their international prices were equal. However, the composition of the dry matter for each powder was different, and as the Committee had not yet discussed that particular aspect, it would not be appropriate to modify the minimum prices.

105. In addition, the Community also believed that an increase in minimum prices would be inappropriate because the Uruguay Round was in the process of being concluded and the repercussions of Uruguay Round decisions on the dairy sector were not known. Furthermore, the Aggregate Measurement of Support (AMS) would have to be reduced and the Community would surely reduce it by reducing further its production. This element was to be added to other uncertainties already mentioned by his delegation.

106. The Community was therefore convinced that there was no need nor any urgency to modify the minimum prices of this Arrangement. The Community was, however, prepared to revert to this matter at the next regular meetings of the Committees in light of the situation of the world market at that time.

107. The representative of Argentina stated that his delegation wished to place on record its disappointment at the results of the discussions on minimum prices and at the deep-rooted divergencies which had come to light in the Committees. Argentina continued to believe that the New Zealand proposal was responsible and well founded.

108. The representative of Japan stated that his delegation would like to express its understanding of the need for an upward revision of the minimum prices of dairy products. He thought that the level of minimum prices should be adjusted in an appropriate manner, taking account of the changes in world markets for dairy products, so that the objectives of the Arrangement could be fully achieved. For this reason, his delegation wished to express its concern at the trend towards a continuing large disparity between the minimum prices and actual market prices for milk powders.

109. The representative of New Zealand noted that the Protocol Committees were not a forum in which all the aspects of the Draft Final Act of the Uruguay Round should be discussed. He noted that the figures quoted by the Community on the New Zealand dairy situation were incorrect and invited participants to look at the information and statistics provided by New Zealand to the Committees. Furthermore, it was necessary to keep shifts in New Zealand's production in perspective. First of all, New Zealand's production averaged between 7 and 8 million tons a year, with sharp fluctuations from one year to another due to climatic conditions. This production was very small compared to that of the major producers, like the Community, which produced more than 100 million tons a year. Moreover, the use of percentages as quoted by the Community was very misleading. New Zealand milk producers received their price from the international market. If other participants would be prepared to accept the same discipline on their milk producers there would be no problem. His delegation did not want to get into a debate about the equity of production controls as against market forces, because this reflected a divergence in philosophies. New Zealand hoped that the Uruguay Round would help lead participants in the right direction out of this impasse. In the meantime, New Zealand was only seeking to make the Arrangement work in the way originally envisaged. His delegation regretted that it had not been possible at this stage to reach the consensus necessary to modify the minimum prices for milk powders and thus maintain the integrity of the Arrangement.

110. The Committees took note of the comments made under this item.

Oral report to the Council

111. 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/39).

Date of next meetings

112. The next regular sessions of the Committees will be held on 14 and 15 December 1992, subject to confirmation by the Secretariat. The Committees took note of a preliminary programme of further regular meetings up to the end of 1993.