

GENERAL AGREEMENT ON

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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-Fourth Session

21 and 22 June 1993

Introduction

1. The three Protocol Committees held a joint session on 21 and 22 June 1993 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 fifty-third 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. Review of the market situation
- E. Sales under derogation
- F. Adoption of report to the Council
- G. Date of the next meetings

Adoption of report on the fifty-third session

3. The report of the fifty-third session was adopted as amended and distributed in document DPC/PTL/30.

Information required by the Committees

(a) Replies to Questionnaires 1 to 3

4. The Committees reviewed the replies to Questionnaires 1 to 3 in respect of the first quarter of 1993. Participants were requested to provide all the relevant information concerning the second quarter of 1993 by 15 September 1993, 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 questionnaires in respect of milk fat, cheeses, skimmed milk powder and whole milk powder and issued, respectively, in documents DPC/PTL/W/90, DPC/PTL/W/91 and DPC/PTL/W/92. 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 information which the Secretariat had compiled on production, trade, stocks and consumption of dairy products in the United States, providing data related to the first quarter of 1993 and forecasts for the second quarter of 1993.

Transactions other than normal commercial transactions

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

Review of the market situation

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

Uruguay

9. Skimmed milk powder production (1,640 tons) and consumption (90 tons) during the first quarter of 1993 remained stable compared to the corresponding period of 1992. Exports in the year 1992 decreased to 1,300 tons compared to 6,900 tons in 1991. However, exports recovered in the first quarter of 1993, amounting to 1,460 tons compared to 400 tons in the first quarter of 1992. The average export price during the first quarter of 1993 was US\$1,900 per ton. Production (2,300 tons) and exports of whole milk powder (2,550 tons) during the first quarter of 1993 were greater than during the first quarter of 1992. The average export price during the first quarter of 1993 was US\$1,802 per ton; the main destination was Colombia.

10. Stocks of butter at the beginning of 1993 were a relatively high 4,170 tons as no exports were made in the fourth quarter of 1992. Exports in the first quarter of 1993 declined to 350 tons compared to 500 tons in

the corresponding quarter of 1992. Consequently, stocks at the end of March 1993 at 4,500 tons were still high. The average export price during the first quarter of 1993 was US\$1,800 per ton c.i.f.; the main destination was Brazil.

11. Exports of cheese declined to 1,280 tons during the first quarter of 1993 compared to 1,900 tons in the corresponding quarter of 1992. The average export price in that period was US\$3,100 per ton; the main destinations were Brazil, Argentina and the United States.

Switzerland

12. Milk deliveries increased by 4.5 per cent in the first four months of 1993, to 1.046 million tons. In April 1993, the government took decisions on dairy policy which would enter into force as of 1 September 1993. The guaranteed producer price of milk was cut by 10 centimes and set at 97 centimes per kg. This cut will not be reflected in the prices of cheeses; however, the prices of butter will decline by SwF 1 per kg. for first grade butter, by 60 centimes per kg. for butter for cooking in small packs and by SwF 1 per kg. for packs of 1 kg. or more. More detailed information on these decisions will soon be forwarded to the Secretariat.

13. Butter production increased by 7 per cent to 9,100 tons during the first quarter of 1993 due to the increase in milk deliveries. Imports of butter in that period at 700 tons were less than half of the 1,500 tons imported in the first quarter of 1992. Stocks at the end of March 1993 increased to 5,500 tons compared to 4,500 tons at the end of December 1992.

14. Cheese production increased by 2.6 per cent to 31,800 tons during the first quarter of 1993. Exports decreased by 6.1 per cent in that period to 13,900 tons, while imports registered a substantial increase (by 32.7 per cent) to 6,900 tons. Consumption increased by 6.7 per cent to 22,400 tons and stocks declined slightly during the first three months of 1993.

15. The situation in the skimmed milk powder market was characterized in the first quarter by a slight increase in production. Stocks were also higher at the end of March 1993 compared to the beginning of the year.

Sweden

16. Milk deliveries to dairies increased by 5.4 per cent in the first five months of 1993 compared to the corresponding period of 1992. For 1993, milk deliveries are expected to increase by 2.9 per cent. The use of bought fodder of a higher quality this winter instead of hay, as a result of the drought last summer, contributed to the increase along with an increase in numbers of dairy cows. Total numbers of dairy cows are forecast to increase by approximately 1 per cent to 533,000 head.

17. As a result of the increased milk production, butter production is increasing in Sweden. In the first quarter of 1993, butter production amounted to 11,600 tons compared to 9,800 tons in the corresponding period of 1992. Preliminary information indicates that exports of butter in the first quarter of 1993 amounted to 5,700 tons. Stocks at end of the first quarter were above the level one year earlier, 6,200 tons compared to 2,900 tons. The average Swedish export price in early June 1993 was US\$1,350 per ton f.o.b.

18. Swedish cheese production increased slightly in the first quarter of 1993 and amounted to 29,500 tons compared to 27,400 tons during the same quarter of 1992. For 1993, production is forecast to be slightly above the previous year's level. No figures are yet available concerning foreign trade during the first quarter of 1993. Stocks at the end of the first quarter were slightly below the stock level at the end of March 1992, i.e. 35,300 tons compared to 37,600 tons.

19. Production of skimmed milk powder increased to 11,500 tons in the first quarter of 1993 compared to 7,900 tons in the same period of 1992. Preliminary information indicated that exports during this quarter

remained stable. Stocks increased but are still at rather low levels, 4,100 tons compared to 2,800 tons at end of first quarter 1992. The average Swedish export price in early June was US\$1,625 per ton f.o.b.

Norway

20. Milk deliveries declined by 2 per cent in the first three months of 1993 compared to the corresponding period of 1992. For the whole year 1993, a decrease by 0.5 per cent to 1.80 million tons is expected as a consequence of the government's scheme for buying back milk production quotas.

21. Butter production decreased by 0.5 per cent during the first quarter of 1993 compared to the first quarter of 1992. This lower butter production level is expected to continue through 1993. Consumption of butter is at the same level as last year. Norway has to date this year exported 3,021 tons of butter. It is expected that total butter exports will be around 8,000 tons for 1993, the same level as in 1992. As usual, Norway has had no butter imports in the first quarter of 1993, nor are any expected during the rest of the year.

22. Cheese production has been lower during the first quarter of 1993 compared to the same quarter last year. However, total production for 1993 should be at the same level as in 1992. Cheese consumption has increased somewhat in early 1993 but the annual level is expected to be at the same level as the previous year. Imports of cheese have risen during the three first months of 1993 but total imports for the year should be unchanged. Most of the imports come from the European Community and Sweden. Total exports have increased during the first three months of 1993 compared to the same period of 1992. Norway has so far exported 6,323 tons of cheese, mainly to the European Community, Japan and the United States. Total exports should be around 27,000 tons for 1993, which is a slight increase compared to the previous year.

23. The milk powder situation is stable. Most of the milk powder is returned to the producers as animal feed. A limited amount of skimmed milk powder has been exported from Norway during the first quarter of 1993. There have been no significant imports of milk powder nor are any expected.

Finland

24. Milk deliveries during January-April 1993 were 0.9 per cent higher than in the corresponding period of 1992. Preliminary estimates for 1993 indicate total deliveries of 2.25 billion litres. Deliveries in 1994 are forecast to remain stable at 2.25 billion litres.

25. Butter production in January-March 1993 was 3.3 per cent more than during the corresponding period of 1992. However, the annual production level is expected to decline by 2.6 per cent to 56,000 tons. Butter consumption in January-April increased by 2.6 per cent after having decreased by 10 per cent during the same period of 1992. The estimate of annual consumption is 38,000 tons. Finland has exported some 5,500 tons of butter in January-April 1993. Butter stocks in May were 7,000 tons. Estimates for butter exports in 1993 are 18,000 tons. Forecasts for 1994 are for production of 57,000 tons, consumption of 38,000 tons and exports of 19,000 tons.

26. Cheese production in January-April was 30,000 tons (+ 3.8 per cent). The estimate for the whole year is 85,000 tons. Cumulative consumption in April 1993 was less than in 1992, but more than in 1991. Annual consumption in 1993 is estimated to be 72,000 tons. Exports in January-March were 6,000 tons (+ 4.4 per cent) and the estimated total exports for 1993 are 23,000 tons. Stocks in May were 7,400 tons. In 1994, the forecasts are for the production of 85,000 tons, consumption of 73,000 tons and exports of 22,000 tons.

27. Skimmed milk powder production in January-March was 2,700 tons (+ 2.1 per cent). Exports in January-March were 400 tons and stocks in May were 5,000 tons. Total production for 1993 is estimated to be 16,000 tons,

consumption 13,000 tons and exports 3,000 tons. Forecasts for 1994 are for production of 15,000 tons, consumption of 13,000 tons and exports of 2,000 tons. Production of whole milk powder was only 70 tons (- 83 per cent) in January-April and 100 tons were exported. Estimated production for 1993 is 600 tons, consumption 700 tons and exports 400 tons. Stocks in May were 500 tons. Estimates for 1994 are for production of 1,000 tons, consumption of 500 tons and exports of 500 tons.

South Africa

28. The production of milk exceeded utilization in 1992/93, which resulted in higher than expected stocks of skimmed milk powder and butter. Expected milk production of 1.9 million tons in 1993/94 is 3 per cent lower than the production in 1992/93. Total utilization of milk is expected to be 1.8 per cent higher in comparison with the 1.8 million tons utilized in 1992/93. It is expected that this will result in a decrease in the 155,000 tons milk surplus of the beginning of 1993 to a projected 43,000 tons for 1993/94, and subsequent lower stocks of skimmed milk powder and butter. Consumption of drinking milk is expected to amount to 945,500 tons, a decrease of 1 per cent as compared to 1992/93. The utilization of milk in the dairy industry is estimated to be 840,000 tons, 5 per cent higher than the previous year. Total consumption of dairy products decreased by 4.8 per cent in 1992/93 in comparison with 1991/92. As a result of the decrease in consumer spending on non-durable consumer goods it is expected that the consumption of dairy products will decrease by a further 2.7 per cent during 1993/94.

29. The production and consumption of cheese during January to March were 8,352 and 8,562 tons, respectively. Consumption of cheese during the second quarter of the year is estimated at 8,578 tons. It is expected that the production of cheese will be 2 per cent higher than in the previous quarter. The total market for cheese is estimated at 38,500 tons. Cheddar and Gouda constitute almost 90 per cent of this market.

30. Butter production is expected to decrease by 60 per cent from 4,300 tons in the first quarter of 1993 to 1,700 tons in the second quarter. Consumption is expected to decrease by only 6.5 per cent. This

will result in a decrease of stocks of butter from 5,500 tons at the end of March to 3,400 tons at the end of June.

31. Production of skimmed milk powder decreased by 32 per cent in the first quarter of 1993 in comparison with the last quarter of 1992. In January-March 1993, consumption of skimmed milk powder showed a slight decrease when compared to the last quarter of 1992. It is expected that consumption will stay fairly constant in the second quarter of 1993, but that production will decrease by a further 71 per cent to 1,550 tons. This will result in a considerable decrease in the current stocks of 10,800 tons of skimmed milk powder. Production of whole milk powder is expected to decrease by 52 per cent from 4,533 tons in the first quarter of 1993 to 2,177 tons in the second quarter. Consumption estimates for the second quarter show a decrease of 20 per cent compared to the first quarter.

Romania

32. Recent developments in the Romanian dairy sector cannot be dissociated from the radical changes of the past few years in the economy as a whole. A major component of the reform to move towards a market economy was the decision to dismantle the agricultural co-operatives specific to the former regime and to reinstate private ownership of agricultural land. Currently, 80 per cent of arable land is privately owned by more than 5 million owners. This sudden change has given rise to a series of problems which largely explain the decline in agricultural production in recent years in both the grain and livestock sectors. Adverse weather and climate conditions, particularly the prolonged drought, have also contributed.

33. The number of dairy cattle has fallen dramatically, dropping from 2.4 million in 1988 to 1.8 million in 1992. A further decline in dairy cattle head is expected for the current year - according to estimates, it could drop to 1.5 million. A slight recovery is anticipated only in 1994. Purchasing power is declining as a result of high inflation and the emergence and accelerated growth of unemployment.

34. As a result of these factors, production and consumption of dairy products have continued to decline. Production figures for 1992, and their drop as compared to the previous year, were as follows: fluid milk, 3.6 million hls. (- 7.3 per cent); fresh milk products (in 3.5 per cent milk fat equivalent), 1.5 million hls. (- 45.8 per cent); butter, 20.4 thousand tons (- 10.7 per cent); cheese, 45.7 thousand tons (- 33 per cent); skimmed milk powder, 5.4 thousand tons (- 41 per cent); whole milk powder, 4.8 thousand tons (- 51 per cent). For the first four months of the current year, preliminary data indicate a similar trend in production. As compared to the corresponding period of the previous year, production has dropped by 21 per cent for fluid milk, 43.9 per cent for butter and 25.8 per cent for cheese. Consumption has also registered a downward trend, largely as a result of the drop in production and purchasing power. Exports and imports have not had any notable impact on consumption, except for butter. Under the effect of food aid, butter consumption, already at very low level, increased slightly in 1992. Prohibitions on exports of milk powder and butter were maintained in 1992. Cheese exports amounted to 1.9 thousand tons in 1992 and 340 tons in the first quarter of 1993. On 1 May 1993, the remaining consumer subsidies were eliminated. For the forthcoming period, the authorities' main concerns in the dairy sector are to halt the decline in the number of cattle, create favourable conditions for new and small farms and increase the milk yield per cow. Current yield levels are only 2.3 thousand litres per head, approximately half of the yield in advanced countries.

Poland

35. Milk production declined to 12.8 billion litres in 1992. It is forecast that milk production in 1993 will further decrease to 12.2 billion litres, a drop of 4.7 per cent compared to 1992. Milk deliveries totalled 6.8 billion litres in 1992 and are expected to decline to 6.5 billion litres in 1993.

36. Production of milk powders, Cheddar cheese and butter remained stable in the first quarter of 1993 compared to the corresponding quarter of 1992. Consumption of long-life milk, ice-cream and milk desserts continued to

rise in the first quarter while butter consumption continued to fall. Imports of Cheddar cheese and butter as well as exports of skimmed milk powder increased in that period. Changes in the consumption pattern of butter made it difficult to manage the domestic supplies of that product. Consequently, stocks of butter of over one year old were high at 11 thousand tons. Seasonal increases in milk deliveries in the second quarter of 1993 are likely to result in an increase of domestic production of dairy products.

New Zealand

37. The 1992/93 dairy season ended on 31 May. The industry currently is in a largely dormant state for the winter; production will not get under way again until August. At the beginning of the 1992/93 season, major dairying areas were adversely affected by a dry winter which had resulted in low levels of pasture cover on most farms. Poor weather in the early part of the season, when sunshine hours were 20 per cent below normal levels and some regions experienced exceptional late winter storms, kept grass growth below normal, holding back milk production. The seasonal growth was, however, generally very good with even rainfall and relatively mild temperatures through October and November. Thus, although the flush of production came later than usual, it lasted longer, compensating for the slow start. Production held up well through December, January and into the early part of February when it was running at levels above those recorded a year earlier. In the second half of February and into March, however, production fell sharply with the on-set of drier conditions and the deterioration of pasture quality associated with this. At that stage it was expected that production for the season as a whole would be 1 per cent above 1991/92. However, production in late April and May was better than anticipated. The result is that manufacturing milk production in the 1992/93 season is provisionally estimated to have amounted to 372 million kgs. of milk fat compared to 364 million kgs. in 1991/92, or about 2 per cent higher.

38. The amount of milk produced in the 1993/94 season will depend, as usual, on the pattern of seasonal conditions experienced. Given, however, that some new resources have been drawn into the industry, production in 1993/94 could be higher if normal weather patterns are experienced in the major dairying regions. A full evaluation of the 1993/94 production prospects will be provided in September once the new season's production is under way and planning for it has been finalized.

39. The trend in the volumes of various dairy products manufactured in the 1992/93 season was unchanged from that of recent years. An expansion of whole milk powder production was achieved, though less was produced than had been planned at the beginning of the season. Production is constrained by the availability of export markets and by capacity constraints within the industry. Cheese production also expanded modestly. The expansion of both cheese and whole milk powder is designed to reduce the industry's dependence on the production of butter. Market opportunities for butter and related products are limited and highly uncertain, especially at present.

40. Throughout the 1992/93 season the New Zealand Dairy Board has faced a problem of excess availability of butter. This problem reflects the limited international market opportunities available for butter, a problem exacerbated by the collapse of the Soviet Union, which previously accounted for more than 50 per cent of all butter imports in the world. Recent sales have alleviated this problem to some extent with most immediately available supplies committed. However, this is regarded as no more than a short-term respite with considerable uncertainties about the placement of 1993/94 season production. For other product groups, the New Zealand supply position is comfortably balanced with virtually all production committed to regular suppliers. The one exception is with casein where there will be a modest carry forward of uncommitted stocks from the 1992/93 season into 1993/94.

41. A final value for manufacturing milk for the 1992/93 season was fixed by the New Zealand Dairy Board in May at NZ\$5.65/kg. milk fat. This was an increase on the 1991/92 season, reflecting some improvement in market

earnings and the lower value of the New Zealand dollar. For the 1993/94 season an advance milk value of NZ\$4.50/kg. milk fat has been set. The Board has indicated that it expects the final value for the season to be in the vicinity of NZ\$5.50/kg. milk fat.

42. International markets for butter and butter oil have remained under heavy pressure through the second quarter of 1993 with sales opportunities very limited relative to available supplies. The European Community pricing position has improved as domestic market prices have firmed and as the reductions in European Community export restitutions announced in March have taken effect. However, competition among other suppliers has kept prices close to the respective minimum export prices of US\$1,350 and US\$1,625 per ton, respectively, for butter and butter oil.

43. Markets for milk powder generally have softened through the second quarter of 1993. This is a reflection of the seasonal increase in northern hemisphere supplies and bearish market sentiments, fuelled in part by exchange rate movements which have injected a degree of uncertainty into the pricing of some major exporters. Current price ranges are as follows:

Skimmed milk powder	US\$1,700-US\$1,750 per ton f.o.b.
Buttermilk powder	US\$1,625-US\$1,675 per ton f.o.b.
Whole milk powder	US\$1,600-US\$1,650 per ton f.o.b.

44. Prices for cheese generally have been firmer through the second quarter of 1993, despite substantial increases in production in some major producing countries. For Cheddar varieties, pricing currently is in the range of US\$1,800-US\$1,900 per ton f.o.b.

Japan

45. Production of raw milk during the first quarter of 1993 increased by 1.9 per cent over the same period of 1992. Since August 1991, monthly raw milk production has shown an increase compared to the corresponding period in the previous year. In particular, output increased in Hokkaido, the

main dairy production area. Total raw milk output in fiscal year 1992 was 8,620 thousand tons, an increase by 3.3 per cent compared to fiscal year 1991.

46. The demand for drinking milk during the first quarter of this year was almost the same as the same period last year. In Japan, about 60 per cent of raw milk is consumed as drinking milk, primarily ordinary whole milk and processed milk. The demand for such products was almost the same as the first quarter of 1992. However, the demand for milk beverages increased over the first quarter of 1992 by 1.2 per cent due to the popularity of new products, such as milk with other nutritive additives or flavoured milk. Moreover, the demand for fermented milk also increased (by 3.2 per cent) over the first quarter of 1992 due to consumers' concern for health.

47. This slowdown in the increase in demand for drinking milk coupled with the increase in the output of raw milk, resulted in a 7.4 per cent increase in raw milk available for producing butter and skimmed milk powder during the first quarter of 1993 compared to the same period of 1992. Therefore, butter and skimmed milk powder production increased sharply (respectively by 19.4 per cent and by 12.5 per cent). Due to the economic slowdown, total consumption of skimmed milk powder in fiscal year 1992 did not increase as before and that of butter slightly decreased.

48. Wholesale prices of both butter and skimmed milk powder have largely fallen since the latter half of 1991 when there was a shortage of these products. Since last summer, those prices weakened more than before. Production of natural cheese and processed cheese during the first quarter of 1993 increased, respectively, by 10 per cent and 15 per cent over the same period of 1992.

49. The import of 17,000 tons of skimmed milk powder by the Livestock Industry Promotion Corporation, which was announced in April 1992, was completed by July. Since then, the LIPC has not imported skimmed milk powder. This reflects the gradual fall in domestic prices since last

summer as imports by the LIPC are aimed at stabilizing the domestic supply and demand balance and wholesale prices. Imports exempt from the LIPC operations during the first quarter of 1993 reached 19,860 tons and increased by 13 per cent over the same period of 1992 due to an increase in import demand for animal feed. In the first quarter of 1993, import prices of skimmed milk powder for human consumption rose by 5 per cent over the fourth quarter of 1992, and by 15 per cent over the corresponding period of 1992. Import prices of skimmed milk powder for animal feed have continued to increase during 1991 and 1992. Compared with the first quarter of 1992, import prices increased by 20 per cent in the first quarter of 1993.

50. Imports of butter exempt from the LIPC operations during the first quarter of 1993 remained at 612 tons, which is about two thirds of that of the corresponding period of 1992. The LIPC has not imported butter since January 1992 as the market situation of butter was not tight due to the increase in production and to lower demand. The import prices of butter during the first quarter of 1993 have fallen by about 6 per cent over the fourth quarter of 1992. However, they increased slightly compared with the first quarter of 1992.

51. The strong demand for cheese resulted in an increase in imports of both natural cheeses and processed cheeses by 7 and 28 per cent, respectively, over the same period last year. Import prices of natural and processed cheeses decreased by 6 per cent and 19 per cent, respectively, compared to the preceding quarter. However, compared with the first quarter of 1992, the price of natural cheese was almost the same and the price of processed cheese increased slightly.

Hungary

52. Annual milk production in Hungary was in the range of 2.3-2.4 million litres in recent years. The number of cows decreased by 11 per cent to 456,000 head during 1992. Milk deliveries to dairies dropped by 10 per cent in 1992. Production continued to decline in the first months of 1993. In Hungary, there is a shortage of fresh milk and this situation might

continue for the rest of the year. In order to avoid further reduction in milk production, a new agricultural marketing regime has begun to provide subsidies to producers.

53. Production of butter decreased by 20 per cent to 4 thousand tons in the first quarter of 1993 compared with the same period of 1992. Exports were limited (only 1.1 thousand tons) and will remain at minimal levels for the rest of the year. The main export markets were Russia, Italy and Romania. The average export price was US\$1,417 per ton f.o.b. Export prices of butter have been far below the production costs. Although the export subsidy is currently 30 per cent, it does not solve the loss in butter production.

54. Stocks of cheese at the beginning of 1993 were 32 per cent lower than a year earlier. Production of cheese increased by 4 per cent to 11.1 thousand tons in the first quarter of 1993. At the same time consumption has grown by more than 60 per cent as a result of the expansion in imports by 100 per cent and the fall in exports by 35 per cent. Among dairy products, butter and cheese are included in the global import quota for consumer goods. The ceiling value for these two products for 1993 is US\$3 million. In the first quarter of 1993, the average export price was US\$1,678 per ton f.o.b. The maximum price for high quality cheese was US\$2,837 per ton f.o.b.

55. Production of skimmed milk powder decreased by 15 per cent to 1.1 thousand tons in the first quarter of 1993. Hungary neither imported nor exported skimmed milk powder in the period under review. Production of whole milk powder decreased by 10 per cent in the first quarter of 1993. Imports and exports were nil.

Bulgaria

56. A dramatic situation is continuing to prevail in the Bulgarian dairy sector. Cow numbers continue to decline as farmers have found it difficult to secure the necessary fodder without the subsidies which had been

available before the restructuring of the agricultural sector. Official figures for milk production in the first quarter of 1993 are not yet available but unofficial estimates suggest that the trend towards falling production could be reversed. However, for the time being the downward trend still prevails for the production of cheeses, the most important dairy product for Bulgaria covered by the Arrangement. For the first quarter of 1993, the overall quantity of cheeses produced in Bulgaria amounted to 12,800 tons, a drop of nearly 33 per cent compared to the same period of 1992. Production during the first quarter of 1993 was less than 39 per cent of the quantity of cheeses produced during the first quarter of 1990. Cheese exports have also dramatically fallen to reach only 2,000 tons; this quantity is lower than the 1991 level and is only 37.8 per cent of the quantity exported during the first three months of 1992. The traditional export markets were mainly Greece, Germany, the United States, Macedonia and Lebanon. The average export price was US\$2,949 per ton. While there were no imports of cheeses in the last quarter of 1992, 800 tons were imported from Lithuania, Estonia, France, Norway and Poland during the first quarter of 1993.

57. For the period under consideration, no information is available concerning the production of skimmed milk powder. 800 tons were imported from Hungary, Croatia, Poland and the CIS and only symbolic quantities were exported to Greece and Macedonia. Production of whole milk powder was 600 tons during the first quarter of 1993, a 50 per cent decline compared to the same period of 1992. 200 tons of whole milk powder were imported from the European Community, Poland and Sweden. No exports were registered during the period under consideration.

58. The declining trend is also confirmed in butter production. During the first three months of 1993 only 1,300 tons were produced. This is only 56.5 per cent of the output registered during the same period of 1992, and represents a decline of 75.5 per cent compared to the production levels of 1990. It is only normal that under these conditions insignificant quantities were exported to Azerbaijan and 400 tons (or twice the import levels of 1992) were imported from Greece, the Czech and Slovak Republics and Estonia.

Australia

59. National milk production for the 1992-93 season is running well above last year's levels. Output for the year ending March 1993 is up by almost 9 per cent. Total output for the season is expected to reach 7,300 million litres. This high level of production is mainly due to the above average seasonal conditions, greater use of supplementary feed, higher farmgate returns and the availability of cheap feed as a result of the rain-affected wheat harvest. There has also been a rise in dairy cow numbers following a period of gradual decline.

60. Despite the increase in milk production, sales to the liquid milk market have been relatively static. Sales of plain whole milk have continued to fall, but this has been offset by increases in sales of reduced fat and flavoured milk. This has meant a significant increase in the volume of milk available for manufacturing and a resulting increase in output of all major products.

61. Higher butter production and a difficult export market have combined to intensify competition on the domestic market. This has resulted in an increase in domestic usage with butter's share of the total domestic retail tablespreads market increasing as overall consumption of margarine declined marginally. Dairy blend sales showed only modest growth during the 1992 calendar year.

62. Total sales of cheese in Australia grew by approximately 1.7 per cent in 1992, signalling some rebound from the preceding two years when there was negligible growth. The fast food sector has been strong, and this is reflected in total sales of Cheddar and mozzarella varieties. Cheddar and mozzarella are also displaying high sales growth through supermarkets, with much of this growth being in convenience lines.

63. Total domestic sales of whole milk powder increased substantially in calendar year 1992. This was mainly due to increased New Zealand imports, targeted largely at the confectionery industry. Domestic sales of skimmed

milk powder increased by around 2 per cent in 1992. This limited growth reflects a shift towards liquid skimmed concentrate in many applications, because of convenience and improved end-product quality. This trend is expected to increase.

64. Butter and anhydrous milk fat (AMF) prices remain depressed. Prices for other dairy products are generally holding firm despite some downward pressure on international prices due in part to the European Community reaching its peak seasonal production in May, but also to a general increase in the value of the US dollar against major European currencies. The butterfat market is problematic with a significant structural demand problem exacerbated by significant ad hoc exports from the United States. The current international price structure for the powders and cheese market is generally expected to continue for the remainder of 1993, with demand prospects for most products remaining reasonably firm.

65. The international butter and AMF markets remain flat with prices around their respective IDA minimums of US\$1,350 and US\$1,650 per ton. Asian buyers appear to be well stocked. European Community public butter stocks currently stand at 175 thousand tons with only small quantities of product being sold to intervention stocks during May. Public US butter stocks continue to grow and in mid-May totalled 204 thousand tons. These stocks are likely to fall, however, following recently announced food-aid programmes for over 60 thousand tons of butter to Russia and various Eastern European States. However, US butterfat exports so far this year are well down compared to last year as a result of reduced activity in the Algerian market. A key factor in the ongoing weakness in international butter/AMF prices is the general shortage of hard currency in the former Soviet Union countries. Butter prices will continue to be under pressure for the foreseeable future.

66. Skimmed milk powder (SMP) is currently trading in the region of US\$1,650 per ton. This is around US\$450 above the IDA minimum price and a decline of around US\$100 per ton since the March IDA meetings. The weakening occurred mainly during May, which was the peak month of European

production season. Despite lower prices, there was no European Community intervention buying of SMP in May. European Community intervention stocks of SMP were below 30 thousand tons at the end of May. In the United States, public stocks of SMP remain nil. Manufacturers' stocks, however, are significant and this has given rise to increased pressure from manufacturers for additional subsidized export sales under the Dairy Export Incentive Program (DEIP). Indications are that SMP prices may trend up slightly during the remainder of 1993. Buttermilk powder (BMP) prices are currently in the range of US\$1,450-US\$1,600 per ton. Whole milk powder (WMP) prices are currently around US\$1,650 per ton (on par with SMP prices). Future demand prospects for WMP are mixed. Algeria and the former Soviet Union, key markets for WMP, still have internal economic difficulties. Counteracting these difficulties, it is likely that there will be continued demand in Asian and Latin American countries.

67. Cheese prices have generally remained steady over recent months as the key Japanese market holds up well. Bulk Cheddar is currently trading in the range of US\$1,800-US\$1,900 per ton. In the European Community, reduction in fresh supplies of cheese have seen internal stocks fall and wholesale prices for Cheddar have slowly firmed. This trend is expected to be maintained over the northern summer. United States Cheddar prices stabilized in May, after increasing rapidly in the first four months of 1993. Cheddar block prices at the international cheese exchange were US\$3,070 per ton in May compared to US\$2,623 per ton in early January. The growth in recent years in international demand for cheese reflects a number of factors including continued growth in per capita consumption in major western economies, particularly for reduced fat and fresh varieties, and a generally steady increase in consumption in Asian markets. Demand from Asian markets has 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 remain firm with commercial demand expected to maintain its steady upward trend throughout the remainder of 1993. In particular, cheese demand in Japan remains strong.

Argentina

68. Production data for 1992 indicate mixed trends for the pilot products. Production of milk powders and concentrated milk increased in 1992 whereas output of butter and cheese decreased. Domestic consumption increased for all major products except cheese. In contrast, exports decreased for milk powders, butter and cheese but sales of concentrated milk increased. Imports of milk powder, butter and cheese increased in 1992, underlying the shift in consumption towards higher value-added products.

European Community

69. On 27 May 1993 the Council of Ministers (Agriculture) agreed on a series of measures governing the milk sector in the Community for the 1993/94 marketing year. A further significant set of decisions on export refunds was taken on 25 March 1993.

70. The Council decided to adjust the milk quotas in the case of Greece, Italy and Spain as it was satisfied that these member States had made sufficient progress in their efforts to implement the quota system. As previously indicated, statistical problems were encountered in these member States and actual deliveries were in excess of those reported. Despite the fact that the quotas for these member States have been increased temporarily by 900, 600 and 100 thousand tons for Italy, Spain and Greece, respectively, the overall level of deliveries in these member States are expected to decline. The temporary increase is for 1993/94. The maintenance of these increased quotas will depend on continued progress in implementing the quota system. A further progress report will be presented by the Commission to the Council in March 1994.

71. Following a court decision, the Council also agreed to increase the quota in the other nine member States by 0.6 per cent to provide quota for SLOM producers (farmers who bought or inherited land covered by a five-year non-marketing contract in the late 1970's, and who were subsequently denied quotas by the Council). The Council further agreed to grant extra quotas for certain priority producers in mountainous and less-favoured areas.

72. The Council decided to postpone the 1 per cent decrease in the quotas until the 1994/95 marketing year. This 1 per cent would be added to the 1 per cent already decided in principle for 1994/95. This decision was taken in light of the more urgent need to improve the balance in the milk fat sector. In consequence, the butter support price was further reduced. The net result of the support price reduction for butter and the monetary reduction co-efficient is that as of 1 July 1993 the target price for milk will be reduced by 2.8 per cent, the support price for butter by 4.3 per cent and the support price for skimmed milk powder by 1.3 per cent. The new prices will be ECU 26.06 per 100 kgs. for the target price of milk containing 3.7 per cent fat, ECU 280.33 per 100 kgs. for the butter intervention price and ECU 170.20 per 100 kgs. for the skimmed milk powder intervention price.

73. The Council also indicated its intention to make provision for member States to apply a national levy on producers to constitute a fund for promotion and publicity of milk products following the elimination of the co-responsibility levy. The Council decided to make ECU 40 million available to member States to buy quotas for restructuring purposes. Finally, the Council decided to lift the suspension on inward processing relief arrangements in the milk sector as from 1 July 1993.

74. The Commission has already taken some decisions in anticipation of the decrease in the butter price in particular. It will, however, take some time to monitor and analyze the effects on the Community market. However, the reduction of 2.8 per cent in the target price of milk should have significant effects. Prior to those Council reductions, the Commission made important reductions in refunds on 25 March 1993. Participants will recall that there were concerns expressed at the March 1993 meeting about milk fat prices. To ensure the respect of the GATT minima, the Commission decreased the refunds for butter and butter oil by ECU 3 and ECU 4 per 100 kgs., respectively. Cheese refunds were reduced by 5 per cent, skimmed milk powder and whole milk powder refunds were also reduced.

75. The market situation in the European Community is stable. Butter and skimmed milk powder prices are currently in the vicinity of 91 per cent and 102 per cent of their respective intervention prices. Intervention purchases of butter are currently about 600 to 700 tons per week. There are no offers of skimmed milk powder into intervention. However, the price of skimmed milk powder has fallen from about 112 per cent of the intervention price to 102 per cent since the beginning of the year.

76. Comparing the 1992/93 quota year (April 1992 to March 1993) with the previous quota year, milk deliveries are down 1.5 per cent, butter production is down by about 8 per cent, skimmed milk powder production is down by about 16 per cent and cheese production is up by about 3 per cent.

77. In 1993, after a weak start, deliveries have picked up and are now estimated for the first four months to be about 1 per cent higher than for the corresponding period of 1992. For the same period, butter production is 1.5 per cent lower than in 1992, while skimmed milk powder production is about 7 per cent up on 1992. Cheese production remained stable in the period under review.

78. The 3 per cent reduction in the butter intervention price should help to reduce the decline in consumption. The stability in the domestic butter market has been encouraged by the decrease in production, the increased demand for butter by the pastry and ice-cream sector and, in more recent weeks, by interest in private storage. Total butter purchases in the first five months of 1993 are less than 20,000 tons. The quantities of butter intended for the pastry and ice-cream sector in the first six months of 1993 are about 14 per cent higher than those in the corresponding period of 1992, i.e. 196,000 tons compared to 172,000 tons. However, as the aid levels are reduced (by ECU 11 per 100 kgs.) in line with the reduction in the intervention price, interest may temporarily be reduced until market prices fall to this new level.

79. The market for skimmed milk powder is also stable though at a lower price level than at the beginning of the year. The reduction in the export refund as well as the reduction in the minimum incorporation in animal feed

have contributed to this price reduction. No skimmed milk powder from intervention stocks has been sold for incorporation in animal feed since March 1993. The use of skimmed milk for the manufacture of casein is about 20 per cent lower in the first four months of 1993 compared with the corresponding period in 1992. A similar reduction has been recorded for skimmed milk powder used in animal feed.

80. Intervention and private stock levels are currently as follows:

Butter:	Public stocks	174,000 tons
	Private stocks	86,000 tons
Skimmed milk powder: Public stocks		29,000 tons
Cheese:	Public stocks	11,000 tons
	Private stocks	109,000 tons

81. The Community's export performance in 1993 would appear to be below last year's levels for most products. The provisional export figures for 1992 compared with 1991 are as follows:

	<u>Quantity</u> ('000 tons)	<u>Percentage change</u> <u>1992/1991</u>
Fresh products	280	+ 1.7 per cent
Condensed milk	343	+ 8.6 per cent
Skimmed milk powder	390	+ 56.0 per cent
Whole milk powder	580	- 7.0 per cent
Butter	142	- 32.0 per cent
Butter oil	83	- 4.0 per cent
Cheese	461	- 3.7 per cent

82. The Community's calculated f.o.b. prices per ton were as follows:

Butter	US\$1,360	to	US\$1,500
Butter oil	US\$1,650	to	US\$1,800
Skimmed milk powder	US\$1,700	to	US\$2,000
Whole milk powder	US\$1,575	to	US\$2,000
Cheese	US\$1,850	to	US\$2,000

83. The European Community is concerned about increased deliveries of milk in certain IDA participating countries and non-participant countries. Production of milk in the United States is increasing. The United States and Canada are important competitors for certain products. In addition, the United States has recently donated 50,000 tons of butter to Russia.

Canada

84. In the first nine months of the 1992/93 dairy year, industrial milk and cream production is 9 per cent below last year's level. For the 1992/93 dairy year, industrial milk and cream production should reach 42.1 million hls., a drop of 5.4 per cent compared to last year. Despite this expected reduction, the level of production would still be 1 million hls. above the Market Sharing Quota. Fluid milk is expected to increase by 1 per cent. Total milk sold off farms should be 2.9 per cent lower than last year because of the reduction in industrial milk and cream.

85. Domestic requirements based on butterfat for August 1992 to April 1993 are calculated to be down by 1.4 per cent (0.41 million hls.). Domestic requirements based on solids non-fat for August 1992 to April 1993 are calculated to be down by 4.6 per cent (1.29 million hls.). For the 1992/93 dairy year, domestic requirements based on butterfat are projected to be 38.5 million hls.

86. At the Canadian Milk Supply Management Committee meeting in May, the Canadian Dairy Commission provided the first draft of the budget for the 1993-94 dairy year. Expectations are that there will be no quota cut for

the 1993-94 dairy year. The federal dairy subsidy will be cut from Can\$6.03/hl. to Can\$5.43/hl. over the next two years. It will then be reduced to Can\$5.13/hl. in 1995/96 and Can\$4.84/hl. in 1996/97.

87. Fluid milk consumption is expected to follow the same pattern as before; sales of standard milk are forecast to fall while sales of low-fat milk are expected to increase, especially 1 per cent milk. In the first eight months of the 1992/93 dairy year, butter production was 12.65 per cent lower than last year but production should increase as more milk is produced. Surprisingly, consumption was up by 3.76 per cent in the first seven months, but stocks and exports are lower than usual. For the 1992/93 dairy year, production should drop by 5.4 per cent and consumption by 2.3 per cent compared to the previous dairy year. Cheddar cheese production was down by 13 per cent in the first eight months while consumption was up by 4 per cent in the first seven months. Like butter, stocks and exports were lower. Production should drop by 5 per cent and consumption should increase by 3 per cent for the 1992/93 year compared to the previous dairy year. Specialty cheese production was up by 4 per cent in the first eight months and consumption was up by 7 per cent in the first seven months of the 1992/93 dairy year. Production and consumption in 1992/93 should increase by 2 per cent compared to the previous dairy year. In the first seven months of the 1992/93 dairy year, skimmed milk powder production was down by 27 per cent and consumption up by 13 per cent. Stocks were down by 60 per cent and exports by 80 per cent.

Economic Commission for Europe

88. Livestock numbers and output continued to decline throughout the CIS during the first three months of 1993, after the negative results of 1992, due to the continuing fall in feed supplies, rising production costs and decreased demand for livestock products because of rising prices. During the first three months of 1993, cows numbers declined by 7 per cent in the CIS, milk output was down by 16 per cent and milk deliveries declined by 18 per cent.

89. In Russia, the main producing republic of the CIS, cow numbers at 1 April 1993 showed a decline by 7 per cent to 13.1 million head. Average milk yields during the first three months of 1993 dropped by 6 per cent. All this resulted in a decline of about 13 per cent in milk output. During the same period butter production decreased by 8 per cent, milk powders output by 24 per cent and cheese manufacture went down by 9 per cent.

Sales under derogation

90. The Committee of the Protocol Regarding Certain Cheeses took note of the information furnished by New Zealand regarding operations under Article 7:2 of the Protocol (DPC/PTL/W/94).

91. The Committee of the Protocol Regarding Certain Milk Powders noted that no new information had been received regarding operations under Article 3:5 of the Protocol.

92. The Committee of the Protocol Regarding Milk Fat had before it a communication from New Zealand concerning problems in the international butter market (DPC/PTL/W/93). The Committee noted that world supplies of butter and anhydrous milk fat continued to exceed existing commercial demand. Stocks remained high and prices weakened in the second quarter of 1993, mainly due to continuing difficulties in the former Soviet Union market and to food-aid deliveries and concessional sales, notably by the United States. The Committee recognized the seriousness of the situation and the importance of finding appropriate solutions to these difficulties. In light of this extraordinary situation and as a short-term solution, the Committee of the Protocol Regarding Milk Fat adopted the following Decision pursuant to Article 7:1 of the Protocol:

"1. At its meeting on 21 and 22 June 1993, the Committee of the Protocol Regarding Milk Fat examined the situation of the international butter market, and in particular the situation with respect to countries of the former Soviet Union. It noted the extraordinary developments following the breakup of the former Soviet

Union which resulted in significant price uncertainty in the market. In addition, commercial market sales to countries of the former Soviet Union have been affected by the availability of supplies of butter on concessional terms.

2. In light of the extraordinary situation that is facing the market of the former Soviet Union and the facts presented to the Committee by a number of participants, the Committee, acting in conformity with Article 7:1 of the Protocol, decided as an exceptional arrangement and without setting a precedent that:

- (i) the provisions of Article 3 with respect to the minimum export prices for butter and butter oil shall not apply to exports to countries of the former Soviet Union up to a maximum quantity of 50,000 metric tons (butter equivalent) per participant for butter and butter oil exclusively for consumption in those countries;
- (ii) this Decision applies to sales contracts unconditionally concluded before 31 December 1993; and
- (iii) deliveries of butter and butter oil to countries of the former Soviet Union pursuant to the Decision are to be completed by 31 March 1994.

3. The Committee determined that information on butter and butter oil committed under contract to countries of the former Soviet Union in terms of this Decision should be provided to the Committee through the Secretariat within twenty days of the contractual commitment being made. This information should include quantities, country of destination and scheduled delivery period and, on a monthly basis, the actual quantities delivered. Participants also agreed to provide information to other participants who request it on the price levels of these contractual commitments, as well as to notify this information upon the expiration of this Decision.

4. In the event a member has concerns that sales of butter or butter oil under this derogation are not being consumed within countries of the former Soviet Union and that they may be disrupting other normal commercial transactions, a special session shall be convened urgently to consider the situation. Unless the Committee decides otherwise, the derogation and remaining shipments contracted to the importing traders concerned would be suspended."

93. The full text of the above Decision is contained in document DPC/PTL/32, dated 22 June 1993. It was agreed that longer-term solutions would need to be further considered by the Committee.

94. The representative of Japan stated that since his country was dependent on imports in order to meet the demand of a large part of domestic consumption, the principal concern of the Government of Japan was the long-term stability of the international dairy market. Japan believed that it was important that the minimum export price regime continue to function in order to achieve this stability. With respect to the derogation proposal, Japan accepted it under the present exceptional circumstances. However, his country had concerns about the sales under this price derogation arrangement. First, Japan also shared the concern expressed by some participants about the leakage of product sold under derogation to non-eligible markets. Secondly, Japan, as the major importing country of dairy products, thought that exports under this derogation arrangement must be made on a commercial basis and, even in the case of non-payment by a purchaser, the government of the relevant exporting country should refrain from providing financial aid.

95. The representative of Argentina recalled that his delegation had repeatedly stated in the past that it was opposed to the granting of derogations which entailed a departure from internationally-agreed rules and constituted a further contributing factor to distortion of the normal functioning of the international market for dairy products. Nonetheless, in view of the exceptional situation in the market of the countries of the

former Soviet Union, the Argentine delegation did not oppose a consensus, it being understood that the derogation must not constitute a precedent, particularly as regards extensions or future requests. However, he wished to underline the importance that Argentina attached to the long term, as a major producer and exporter. Argentina was concerned that the effects of the measure might not be confined to the market of the former Soviet Union, but might extend to other export markets through triangular transactions of products originally destined for the former Soviet Union. To prevent this occurring, his delegation wished to call on countries that availed themselves of the present derogation to act responsibly and to demand that transactions be conducted with complete transparency so that they could be adequately monitored by this Committee and its members.

96. The representative of South Africa stated that his country supported New Zealand insofar as IDA participants must recognize the seriousness of the situation in the international dairy markets and the importance of both short-term and long-term solutions being found if the IDA were to continue to be an effective instrument serving the interest of all its members. As far as the derogation relating to butter sales was concerned, South Africa agreed to such a derogation but only as a short-term solution to the problem. Consideration needed to be given to the suspension of the minimum price arrangements for butter and butter oil until a more effective system was in place.

97. The representative of Uruguay stated that the granting of a derogation for the export of butter and butter oil to the former Soviet Union at prices lower than the minima was not an answer to ensuring that the market for dairy products operated in accordance with the rules laid down in the International Dairy Arrangement and its Protocols. The repeated use of Article 7 of the Protocol Regarding Milk Fat undoubtedly distorted and obscured international market prices. Uruguay believed that the derogation was an extreme measure to be resorted to only in very rare cases and for reasons which excluded all other options. The Committee must prevent derogations from becoming a rule that was applied whenever there was financial or economic instability in buyer markets, instead of allowing

international prices to be fixed by the markets themselves according to their availabilities. Uruguay believed that decisions taken on the basis of Article 3 must be strictly observed.

98. The former Soviet Union was at present in an extremely difficult economic and financial situation, but so were the developing countries. This could not be used as a reason for granting a derogation, otherwise there was a danger that other importing countries might use the same reason to ask to benefit from sales below the minimum price. The purpose of the Arrangement was to provide the international market for dairy products with the necessary means to avoid fluctuations and the proliferation of export and import measures, as stated in its preamble. The fixing of minimum prices by common agreement of the participants to the Arrangement was a sound means of avoiding irregularities in the market. It was not advisable to take account of the particular circumstances of each country in granting derogations. Each time a derogation was granted, the market for dairy products suffered from a lack of transparency in commercial transactions. Undoubtedly, the derogation in question would confront participants with the fact that there was a large quantity of butter available on the international market and that it could be sold below the minimum price. This quantity was destined for the former Soviet Union and the Committee must make sure that its ultimate destination was the consumer in the countries of the former Soviet Union. It was important that the safeguards included in the decision stress that the derogation was granted in exceptional circumstances for the period agreed upon, for the countries of the former Soviet Union and no others. It must be clear that it could not be extended to other countries nor invoked as a precedent in situations which might appear similar.

99. In its proposal, the New Zealand delegation referred to two types of solutions: one short term and the other long term. In view of the present circumstances in the countries of the former Soviet Union and the interests of New Zealand, Uruguay considered that this type of short-term solution, namely the granting of the derogation, was acceptable and Uruguay joined in a consensus. The Committee would have to examine long-term solutions in

great detail and in the near future. His delegation was ready to join others in exploring measures which would avoid the recurrence of situations such as the one presently facing the Committee.

100. The Committee of the Protocol Regarding Milk Fat took note of the statements made.

Adoption of report to the Council

101. Pursuant to Article VII:2(a) of the Arrangement and in accordance with Rule 22 of the Rules of Procedure, the Committees adopted their report to the Council. This was distributed in document DPC/PTL/31.

Date of the next meetings

102. The next regular meetings of the Committees will be held consecutively on 27 and 28 September 1993, subject to confirmation by the Secretariat.