

# GENERAL AGREEMENT ON

RESTRICTED

DPC/PTL/7

14 December 1989

# TARIFFS AND TRADE

Special Distribution

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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

Report of the Thirty-Ninth Session

(18-19 September 1989)

Introduction

1. The three Protocol Committees held a joint session on 18-19 September 1989, to discuss matters related to the operation of the three Protocols.

Adoption of the agenda

2. The Committees adopted the following agenda:
- A. Adoption of report on the thirty-eighth session
  - B. Information required by the Committee:
    - (i) Replies to questionnaires (respectively
      - Questionnaire 2: Milk fat
      - Questionnaire 3: Certain cheeses and
      - Questionnaire 1: Certain milk powders)
    - (ii) Summary tables
    - (iii) Other information
  - C. Sales under derogation
  - D. Review of the market situation for products covered by the three Protocols
  - E. Review of the level of minimum prices under Article 3:3(b) for products covered by the Protocols
  - F. Adoption of report to the Council
  - G. Other business

Adoption of report on the thirty-eighth session

3. The report of the thirty-eighth session was adopted and distributed in document DPC/PTL/6.

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 1989 to do so without further delay. They were also requested to provide the necessary information in respect of the third quarter of 1989 by 8 December 1989, 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 skimmed milk powder and whole milk powder, milk fat and cheeses in the first half of 1989 and issued respectively in documents DPC/PTL/W/10, DPC/PTL/W/8 and DPC/PTL/W/9. The Committees were informed that these figures would be further updated in the Annex to the Annual Report at a later stage.

(c) Other information

6. The Committees took note of the information which the secretariat compiled on production, trade, stocks and consumption of dairy products in the United States. Data related to the second quarter of 1989 and also gave forecasts for the third quarter as well as the whole of 1989.

Sales under derogations

7. The Committees noted with some satisfaction that no sales of milk fat, cheeses and milk powders had taken place under derogations during the second quarter of 1989, clearly demonstrating that the market situation had substantially improved for the products covered by the three Protocols.

8. While generally agreeing with the inference that no sales had been made under derogations due to the improved market situation, the Community representative was not sure whether the same could be true in the case of Australia and New Zealand, especially in respect of cheeses. He wondered whether the quality of cheeses had improved so much that they could no longer be sold at low prices or whether the general price level had risen so much that all types of cheeses could be sold at higher prices.

9. The delegate of Australia reiterated what he had earlier said at the March meeting, that recourse to Article 7:2 of the Protocol was made only rarely in response to the demand conditions prevailing in some of the traditional markets to which his country had regularly supplied such cheese. Generally low-priced cheese was exported when certain quantities had deteriorated in quality due to storage problems and there was demand for such cheese in certain consuming countries.

10. The representative of New Zealand also made it clear that exports of low quality cheese were a small fraction of total domestic production of cheese. The problem had not completely disappeared as a small proportion of cheese produced was always below standard and could only be exported at below the normal prices. This was true even in the case of the Community where, however, such cheese could be internally absorbed without exporting to other countries. But his country was obliged to seek other outlets where it was required. The market conditions had, however, improved to the extent that all types of cheeses could be sold at above the GATT minimum price.

Review of the market situation for products covered by the Protocols

11. The Community milk deliveries were reduced by 1 per cent in the second quarter of 1989 as compared to their level in the same period of last year. Butter output in the second quarter increased by 2 per cent; skimmed milk powder by 6.8 per cent and cheese production by 1.7 per cent. On the other hand, the output of other milk powders declined by 5.6 per cent during the second quarter of 1989. For the whole year of 1989, while milk deliveries were expected to decline by 1.1 per cent, butter production was forecast to drop by 1.5 per cent, milk powders by 1.4 per cent and cheese production was expected to be marginally higher by 0.8 per cent.

12. As regards consumption, forecasts for 1989 indicate that butter would be 4.7 per cent and powders 10 per cent lower. Cheese consumption would be 1.1 per cent higher than last year.

13. On 15 September 1989, public intervention stocks of butter were 33,000 tons as against private stocks between 240,000 and 250,000 tons. Public stocks of skimmed milk powder since the end of June 1989 had been nil. Cheese stocks on 15 September 1989 totalled 160,000 tons.

14. Exports to third countries in the first half of 1989 compared unfavourably with those in the same period of last year. Exports were lower of skimmed milk powder by 37 per cent, whole milk powder 3 per cent, butter 9 per cent and butter oil 40 per cent. But exports of cheeses were 3 per cent higher and shipments of concentrated milk 3 per cent and non-concentrated milk 12 per cent more than in the first six months of 1988.

15. Current export prices ranged between:

US\$1,800-US\$1,850/ton for skimmed milk powder;  
US\$1,900-US\$2,000/ton for whole milk powder;  
US\$2,000-US\$2,100/ton for butter;  
US\$2,100-US\$2,500/ton for butter oil; and  
US\$2,100-US\$2,200/ton for Cheddar cheese.

16. The European Community viewed the current overall dairy situation as balanced. Its objective was to pursue its traditional trade flows in accordance with the level of prices prevailing in the international market.

The existing balance was, however, fragile and could be disrupted by possible increases in production in the United States and the USSR. It was forecast that international dairy trade would decrease in 1989 and 1990.

17. In Australia, cow numbers at 1.66 million on 31 March 1989, were about 1 per cent lower than a year ago and farm numbers were down 2.5 per cent over the year. Despite some improvement in milk returns from the disastrous levels of the mid-1980's, farm gate prices were yet insufficient to halt the flow of resources out of the dairy sector. There had been some recovery in world prices in the last two years, but these were still well below the levels that would exist without substantial government intervention and Australia's dairy industry continued to be disadvantaged and constrained due to this. Total milk production in 1988/89 was 6.288 billion litres, 2.6 per cent up on the 1987/88 level. The increase reflected the effect of the autumn drought in 1987/88, it increased further in the second quarter of 1989 (April-June) when production was 1.031 billion litres as against 1 billion litres in the corresponding period of 1986/87. Current projections for 1989/90 were that milk production would continue to be around 6.3 billion litres, depending on seasonal variations.

18. As regards milk utilization, the production of various milk products as compared to the levels of the previous year, was as follows: output of skimmed milk powder/buttermilk powder was nearly constant or 0.8 per cent lower; casein was 25 per cent down, reflecting poor returns compared to skimmed milk powder; butter, despite falling casein and skimmed milk powder production, increased by nearly 2 per cent, reflecting that more cream was obtained from production of low fat milks and short shelf life products (e.g. yoghurts) for the domestic market due to growing interest in such products; and whole milk powder and cheese output increased by 7 and 8 per cent respectively. Current projections for 1989/90 were for increased skimmed milk powder and butter production, and lower casein whole milk powder and cheese production.

19. Domestic demand continued to be at acceptable levels. Allowing for the use of butterfat in blends (80 per cent butter and 20 per cent sunflower oil), domestic utilization of butterfat had stabilized at around 55,000 tons of butter equivalent. This had been achieved despite a decline in the total retail table spreads market. The domestic offtake of skimmed milk powder declined in 1988/89, but this was more than offset by sales of concentrated skimmed milk. Allowing for this factor, skimmed milk powder usage increased by around 7 per cent in 1988/89, reflecting growing preference for low fat fresh and short shelf life products. The usage of whole milk powder was basically static, while cheese consumption rose in line with recent years. Sales of liquid milk also increased in 1988/89, in line with population increases. Overall, domestic market utilization of dairy products increased in 1988/89.

20. As regards exports, 1988/89 was a mixed year. Exports of skimmed milk powder/buttermilk powder were 4.5 per cent down; butter exports were equal to 1987/88 levels; whole milk powder exports were marginally down; and

cheese exports were substantially lower by 15.6 per cent, reflecting both the deteriorating price of cheese on the world market and the effect of stock run-down in 1987/88. The main destinations of Australia's exports continued to be Japan and South East Asia. Looking to 1989/90, it was anticipated that export availability of most products would be the same as in 1988/89, i.e. up for cheese and skimmed milk powder and down for butter. Australia viewed the current structure of world prices with some concern. In addition to the generally price depressing effect of government intervention in the market, current application of these policies was having an undesirable effect on prices between products. In particular, cheese prices lagged behind other products, mainly due to the EC's export refund policies.

21. The current export prices were US\$1,900 per ton f.o.b. for butter; US\$2,200 per ton f.o.b. for anhydrous milk fat; US\$1,800 per ton f.o.b. for skimmed milk powder; US\$1,850-1,900 per ton f.o.b. for whole milk powder; and US\$1,900-2,000 per ton f.o.b. for cheese.

22. In Hungary, the sharp decrease in the cattle and dairy cow numbers which began in 1985, slowed down in 1987 and completely stopped in 1988, when herd number stabilized above 1.6 million head of cattle. As a result of higher yield, milk production in 1988 increased by 3 per cent to 2,815 million litres. Within this total, there was a slight increase both in the utilization on the farms and deliveries to dairies, while consumption in the form of fresh products dropped significantly by almost 9 per cent compared to the same period of 1987. This trend continued in the first half of 1989. There were no major changes in the dairy production and trade in the first half of the year. The bulk of dairy production was geared to domestic consumption, only small quantities of cheese were exported.

23. Stocks of butter at the beginning of April were relatively high at 5,200 tons, with a production level of 10,200 tons in the first half of 1989 compared to 9,200 tons in the same period of last year. While consumption had slightly increased by 400 tons to reach 8,700 tons, exports increased more significantly to a level of 3,100 tons, mainly to Austria and a smaller quantity to Italy.

24. As regards cheeses, stocks at the beginning of April totalled 7,000 tons. Production had increased to 15,100 tons as against 14,700 tons in 1988. Domestic consumption was down by 17 per cent to a level of 11,300 tons, mainly as a result of increased retail prices. Exports at 2,500 tons had increased by 70 per cent, mainly to a number of traditional markets in the Middle East, which took 556 tons. Other destinations were the Federal Republic of Germany, Austria and the United States.

25. As regards skimmed milk powder, production in the second quarter of 1989 at 6,800 tons was about 800 tons more than in the same period of 1988. Consumption had also increased, but within this the use as animal feed had dropped to 3,400 tons from 3,600 tons. Human consumption increased by 400 tons to reach a level of 1,300 tons in 1989.

26. The production of whole milk powder in the second quarter at 3,000 tons was about 1,100 tons higher than the figure of the same period in 1988. Domestic consumption fell to 1,200 tons or by 400 tons less than the same figure in 1988. About 2,200 tons was exported in the second quarter, due to reduced domestic demand.

27. Average export price for butter was reckoned at US\$1,600-US\$1,700/ton; for cheeses US\$1,800-1,900/ton; and for skimmed milk powder US\$1,200-1,300/ton, f.o.b.

28. In Japan, milk production in the second quarter of 1989 increased by 6.3 per cent over the level in the same period of 1988, in parallel with an increase in the demand for dairy products, in particular, milk for drinking purposes. The market situation had remained tight since the LIPC had to import 8,000 tons of skimmed milk powder and a similar quantity of butter to meet domestic requirements this year.

29. On a product-by-product basis, the output of butter in the first half of 1989 at 42,000 tons was 15.5 per cent more than in the same period of last year. Imports were 4.7 times more than a year before. Average import prices continued to be high.

30. Cheese production increased rather moderately by 6.3 per cent compared to some other dairy products. Consumption, on the other hand, increased by almost 17 per cent in the first half of 1989 compared to its level in the same period of last year. Imports therefore showed an increase of 14 per cent in the same period, of this 9.5 per cent increase was recorded in the second quarter only.

31. The production of skimmed milk powder in the second quarter increased by 8.7 per cent over the level in the same period of last year. Imports were lower due to a significant decline in imports for animal feed purposes. Average import prices remained high.

32. Replying to a question by the EC as to whether the increase in domestic milk production was a result of increased international prices, the delegate of Japan made it clear that the increase was mainly due to increased domestic demand. On the contrary, the guaranteed prices to producers had been reduced by 2.5 per cent at the beginning of this year and therefore there was as such no special incentive to increase production merely for this reason. Imports of all dairy products had also increased in response to an increase in domestic demand. Commenting on another remark by Australia, he said that domestic milk consumption had steadily increased, especially for drinking purposes, and a steady growth in the imports of other dairy products had adequately demonstrated the strength of the Japanese market.

33. In New Zealand, production of manufacturing milk in the 1988/89 season, ending 31 May, was down by an estimated 6.3 per cent, from 332.5 million kgs. in 1987/88 to 311.7 million kgs. This drop was a reflection of adverse seasonal conditions, with little change in cow numbers. The season started off reasonably well but was affected in the

early spring by unusually wet, cloudy and cool conditions in the major dairying regions. In the southern part, on the other hand, unusually dry conditions were experienced through much of the summer and autumn. Such adverse weather conditions had a bad effect on pasture growth conditions, resulting in a significant fall in milk production below year earlier levels, and below levels anticipated at the beginning of the season. Given a return to more normal weather conditions in 1989/90, there should be some recovery in production to the levels of 1987/88 or above those.

34. Despite the lower level of milk production, output of whole milk powder increased in the 1988/89 season, with cheese production remaining stable and other products decreasing. This reflected the industry's policy of reducing the proportion of milk used in butter manufacture in the face of reduced access to traditional markets and the lack of available secure alternative markets. Production of butter and related products accordingly was 12 per cent lower than in 1987/88. Production of non-fat products, skimmed milk powder and casein was also lower in line with the reduction in butter output. While the casein output dropped by 17 per cent, skimmed milk powder production fell by 10 per cent. Overall, the supply position remained very tight for all major product categories, reflecting the generally buoyant international market conditions in 1988/89 and the lower than earlier anticipated levels of production.

35. As regards exports, skimmed milk powder showed a drop of 14 per cent from 155,000 tons in 1988 to 133,700 tons in 1989, whereas whole milk powder increased from 160,400 tons to 181,700 tons or by 13 per cent; buttermilk powder increased from 18,800 tons to 20,300 tons or by 7 per cent; and butter increased from 165,300 tons to 182,300 tons or by 10 per cent over the year. Exports of anhydrous milk fat fell by 42 per cent from 48,900 tons to 28,400 tons and those of cheese dropped by 13 per cent from 107,900 tons in 1988 to 93,800 tons in 1989.

36. From New Zealand's perspective, the process of adjustment in international dairy markets to reducing supply pressures was now complete. Supplies of most products were in balance and demand and export prices, on the whole, were firm. There were four major factors behind the change in market conditions and prices. First, a most fundamental factor was reduced supply pressures. The major cut in milk production in the EC, coupled with the elimination of accumulated surplus stocks of butter and skimmed milk powder, had balanced the market for the last year. Prices for milk and dairy products in the EC had remained above nominal support levels throughout 1988 and 1989, leading to healthier export prices. The elimination of the Community butter surplus had been partly offset by stock building in the United States. Supply availability from New Zealand, Australia and other minor exporters was, however, tight with no significant uncommitted stocks available. There were no skimmed milk powder stocks overhanging the market. Second, parallel with and closely related to the reduction in surpluses in the Community were substantial cuts in the EC's export subsidies for all major products. Third, currency movements, measured in terms of US dollars, had a significant impact on export prices. Throughout 1988 and 1989 the steady rise in the US dollar against the ECU had progressively offset rising Community export prices. The dollar had

appreciated by around 11 per cent in the current year, dampening the rising market. Fourth, the turn around of market conditions had also been bolstered by increased demand, particularly for butter, from Iran, Japan and the USSR, with Iran and the USSR buying large quantities.

37. As to specific product markets, the market for butter/butter oil was considered to be reasonably balanced, with no excess supply threatening the continued recovery of prices. Demand was good, especially from Iran, Japan and the USSR. The United States' stock levels were of some concern, but the reported recent sale of 50,000 tons to the Soviet Union was expected to reduce these stocks to around 100,000 tons. Market prices for butter were in the range of US\$1,900-US\$2,000/ton and for anhydrous milk fat US\$2,100-US\$2,300/ton, f.o.b.

38. The market for skimmed milk powder was reasonably tight, with continued firm demand. However, there was some adjustment of prices after the period of rapid adjustment over the last two years. Market prices were in the range of US\$1,800-US\$1,950 per ton. The demand for whole milk powder continued to be strong, backed by adequate supplies. Prices had been subject to some pressure (in line with skimmed milk powder), but had been positively influenced by the firming up of butter prices. Market prices were in the range of US\$1,850-US\$2,000 per ton.

39. The demand for cheese in key markets such as Japan was strong, with availability from major exporters remaining tight. Export prices had not improved to the same extent as other dairy products over the last two years. The market was generally in the range of US\$1,950-US\$2,100 per ton.

40. In Poland, the system of market-oriented prices, introduced on 1 August 1989, had resulted in a reduction in subsidies to the dairy sector and an improved availability of dairy products on the domestic market. Prices of milk at collection points had doubled.

41. There had been a continuous decline in the cow number since 1975. In 1988, the number was 4.80 million cows, which was 2.7 per cent less than in 1987. Owing to higher productivity, however, the drop in milk production was only 50.2 million litres or 0.4 per cent in 1988, when it totalled 15 billion litres, out of which 11 billion litres were collected by dairies.

42. The output of dairy products in the first half of 1989 was higher than its level in the same period of the previous year, mainly due to favourable weather conditions in winter and spring and improved milk quality. In the third quarter of 1989, the collection of milk was slightly disturbed due to drought conditions in the central and southern part of the country. Collection of milk by dairies in the first seven months of 1989 amounted to 7.947 million litres, which was 7 per cent more than in the same period of last year. Production in 1989 was expected to be at the same level as last year. In the first half of 1989, 130,200 tons of butter was produced, which was 11 per cent more than in the same period last year. Imports decreased by almost 50 per cent to 11,471 tons due to higher domestic production. Cheese output during this period totalled 24,000 tons, 6 per

cent more than its level in the same period of 1988. Skimmed milk powder production in the first half of 1989 amounted to 80,400 tons, showing an increase of 8 per cent over the level of the corresponding period of last year. As a result of higher production, exports increased by 49 per cent to reach a level of 27,000 tons.

43. Currently, the average export price for skimmed milk powder was US\$1,600 per ton and for cheese US\$1,700 per ton.

44. In South Africa, dairy cow numbers increased by 1.3 per cent in 1988 to 860,000 head. Milk production in the second quarter of 1989 was 414,499 tons, and was expected to increase by 13.4 per cent to reach a level of 470,184 tons during the third quarter. Total milk production in 1989 was expected to increase by 4.7 per cent to 1.89 million tons. Milk consumption, in the other hand, amounted to 443,889 tons during the second quarter of 1989 and was expected to increase by 7.6 per cent to 477,833 tons during the third quarter. The total for 1989 would be around 1.9 million tons.

45. Cheese production in the third quarter of 1989 was expected to be 40 per cent higher than the third quarter of 1988 and would be around 11,212 tons. Consumption was estimated at 10,630 tons or 5 per cent more than the third quarter of 1988. No exports or imports were expected. Stocks at the end of September 1989 were reckoned at 9,621 tons.

46. The skimmed milk powder production in the third quarter of 1989 was 39 per cent higher than the 2,665 tons of the second quarter. Consumption was expected to be around 4,801 tons for the third quarter or 9 per cent higher than in the second quarter. No imports or exports were expected and stocks were likely to reach a level of 4,449 tons by the end of September 1989.

47. The production of whole milk powder was expected to increase from 2,003 tons to 2,485 tons in the third quarter. Consumption in the second quarter was a little lower than expected, but in the third quarter it was estimated to be around 2,561 tons. Exports for the second quarter of 1989 were 83 tons. No imports or exports were expected for the third quarter. Stocks at the end of September 1989 would be 1,547 tons.

48. Butter production was 42 per cent higher than expected for the second quarter of 1989. It could reach a level of 3,359 tons for the third quarter. Consumption of butter was expected to be 4,387 tons for the third quarter. It was estimated that 637 tons of butter would be imported during the third quarter. Stocks at the end of September 1989 were estimated to be around 620 tons.

49. In Finland, milk deliveries during the first half of 1989 were 4.4 per cent lower than in the same period of last year. In July, however, production was 2 per cent higher than last July, and the estimates for the whole year of 1989 indicate that deliveries would decrease by 1.2-2.4 per cent or within the limits of 2,470-2,500 million litres. The number of dairy cows in June 1989 was 506,600 head, which was 8 per cent less than a year earlier.

50. Butter production in the first half of 1989 was 10 per cent lower than in the same period of last year. While consumption fell by 20 per cent, the stocks increased. In the second quarter, 5,000 tons of butter was exported at an average price of US\$1,790 per ton f.o.b. Prices had shown a significant improvement during the first quarter of 1989. Stocks were reckoned at 14,000 tons.

51. No significant changes were observed in the production of cheese. About 13,000 tons of cheese (mainly Emmental) were exported at an average price of US\$3,270 per ton f.o.b. Stocks were estimated at 10,000 tons.

52. The production of skimmed milk powder in the first half of 1989 was 14 per cent lower, mainly due to a fall in domestic consumption. The stocks had increased to a level of 12,000 tons, and about 2,000 tons was exported at an average price of US\$1,490 per ton f.o.b. The production of whole milk powder had fallen by 66 per cent during the first half of 1989. About 1,100 tons had been exported at an average price of US\$1,800 per ton f.o.b. Stocks were reckoned at 3,000 tons.

53. In response to the EC's question as to why butter consumption had fallen by as much as 20 per cent, the Finnish representative acknowledged that people were getting more concerned about their cholesterol levels, but even then the per capita consumption level had not fallen below that of other European countries.

54. In Norway, milk deliveries in the first half of 1989 were the same as in the same period of last year. Estimates for 1989 showed that milk deliveries would remain unchanged at the 1988 level of 1,800 million litres.

55. Butter production during the first six months of 1989 was 4 per cent lower than the level in the corresponding period of 1988. Total production for the whole year was expected to remain unchanged at last year's level. Consumption was falling on health grounds and in the first half of 1989 was 13 per cent lower than in the same period of the previous year. About 7,000 tons of butter had been exported by end-June (5,000 tons to the Soviet Union and 2,000 tons to Poland) at an average price of US\$1,500 per ton f.o.b. No more exports were envisaged for the rest of the year.

56. As regards cheese, both production and consumption in 1989 were expected to remain unchanged at last year's levels. Total exports were expected to be 21,000-22,000 tons this year and the average export price was above US\$3,000 per ton f.o.b.

57. The situation with regard to skimmed milk powder was considered to be normal. The powder was returned to producers as animal feed.

58. In Sweden, milk deliveries totalled 3,350 thousand tons during 1988 and were expected to be 1 per cent more in 1989 and a further 2 per cent higher in 1990.

59. Both production and consumption of butter showed a slight increase during the second quarter of 1989 over the same period of 1988. Exports somewhat recovered from the very low level of 2,200 tons in the second quarter, as against 5,100 tons in the second quarter of 1987. Consumption was expected to decrease somewhat due to increasing consumer concern regarding low fat foods. Average export price for butter in early September 1989 was US\$1,750 per ton f.o.b.

60. Cheese production at 27,200 tons in the second quarter of 1989 was about 5 per cent lower than in the same period of 1988. Consumption during this period was 15 per cent lower to a level of 28,200 tons. In 1989, consumption and exports were expected to remain unchanged at the levels of 1988, but imports were likely to increase.

61. Both production and exports of skimmed milk powder were up in the second quarter of 1989. The decline in consumption was considered to be temporary in nature. Stocks at the beginning of the year were very low at a level of 3,400 tons due to the stocking policy of private companies, these increased to 12,000 tons at end-June 1989. Average export price was US\$1,700 per ton f.o.b. at the beginning of September 1989.

62. In Switzerland, milk deliveries in the first seven months of 1989 at 1.87 million tons were 2.8 per cent more than at the same period last year.

63. Production of butter in the first half of 1989 at 21,279 tons was 8.4 per cent more than in the same period of last year. It was expected to stabilize or drop a little in the third quarter. Imports of butter dropped significantly to a level of 878 tons in the first half of 1989 as compared to 3,943 tons in the same period of last year. Imports were likely to pick up as from November. Butter consumption during this period at 20,434 tons showed a slight decline as against a level of 21,360 tons in the first half of 1988. This drop was, however, usual at this time of the year. Stocks were stable at 7,240 tons.

64. Cheese output in the first six months of 1989 showed a slight decrease from 63,900 tons to 63,000 tons or by 1.5 per cent, mainly due to the fact that the production of Emmental cheese was stopped for one month to reduce its stocks. By the end of the year, however, the output would be just about the same as last year. Imports increased by 2.6 per cent in January-June 1989 to reach a total of 11,900 tons. Exports had increased from 26,800 tons in the first half of 1988 to 30,800 tons in the first half of this year, due to market promotion drive. Domestic consumption during this period suffered a slight decline, but the drop was expected to be more or less made up by the end of the year. Stocks had stabilized to a level of 20,100 tons by the end of June 1989. Average export prices of hard cheeses were around US\$5,650 per ton f.o.b.

65. The production of whole milk powder in the first half of 1989 at 8,182 tons was 15.8 per cent higher than in the same period last year. Imports were stable at 1,575 tons; exports were insignificant at 335 tons. Consumption had shown a slight increase. Average export price was around US\$2,400 per ton f.o.b.

66. Skimmed milk powder production was 7.4 per cent higher to 16,239 tons in the first half of 1989, compared to its level of 15,116 tons in the same period last year. Imports and exports were negligible. Consumption showed a marginal decline from 12,133 tons in the first half of 1988 to 11,975 tons in the first half of the current year. Stocks were slightly higher at the end of June 1989.

67. In Bulgaria, milk production fell by 3.9 per cent to a level of 39.6 million litres in the first half of 1989, as a result of the slight drop of 0.4 per cent in cow numbers and a decline of 75 litres in milk production per cow.

68. In the second quarter of 1989, butter production continued to fall. It fell by 7.8 per cent to a level of 7,100 tons as compared to its level in the same period last year. Imports in the second quarter also fell, but the figures for the first half of 1989 were only marginally lower than the figure for butter imports in the whole of 1988. There were no exports of butter.

69. The production of cheeses in the second quarter of 1989 dropped by 1,400 tons to 55,100 tons as compared to the same period last year. The production of white cheese was down by 3.7 per cent, while that of Kashkaval increased by 1 per cent during this period. Exports in the first half of 1989 fell more substantially by 2,400 tons, even though the momentum of exports had picked up in the second quarter. The main export destinations were the USSR, Iran and the Federal Republic of Germany.

70. As regards milk powders, there were no imports of whole milk powder in the second quarter of 1989, and imports in the first quarter were also down by 1,200 tons. Imports of buttermilk powder were also down. However, no imports of skimmed milk powder were made in the first half of 1989.

71. The observer from Canada informed the Committees that milk deliveries in the current dairy year (August to July), as compared to the previous year, remained unchanged. The forecasts for 1989-90 showed that milk deliveries would be between 78-79 million hectolitres.

72. The production of butter in the current dairy year (August 1988-July 1989) remained unchanged at previous year's level of 102,000 tons. In 1989-90, it was expected to decline by 4 per cent to a level of 98,000 tons, due to an anticipated reduction in milk quotas and increased requirements of milk for cheese. Domestic consumption of butter in 1988-89 was 3 per cent less on the previous dairy year at a level of 96,000 tons. It was expected to remain unchanged in 1989-90.

73. The skimmed milk powder production in 1988-89 at 102,000 tons was 13 per cent lower than in the previous dairy year. In 1989-90, it was expected further to decline by 2 per cent to a level of 100,000 tons, due to a reduction in industrial milk quotas.

74. The output of Cheddar cheese was 118,000 tons while that of speciality cheese was 137,500 tons in 1988-89. In 1989-90, both were expected to increase to levels of 121,000 tons and 140,000 tons respectively.

75. The observer from the Economic Commission for Europe told the Committees that on 1 July 1989, cow numbers on State and collective farms in the USSR amounted to 28.6 million head, representing a decline of 0.7 per cent as compared to July of last year. Global milk output increased by about 2 per cent during the first half of 1989, while deliveries went up by 1.2 per cent. The relatively lower production growth was primarily due to smaller feed supplies.

76. Butter production in the first six months of 1989 was 0.2 per cent below last year's level, while the output of margarine fell by as much as 5 per cent. Imports of butter in 1988 increased by 9.3 per cent, reaching a level of 440,500 tons. In the first six months of 1989, the USSR imported some 160,000 tons of butter, of which 80,000 tons originated from the EC and the rest from other countries. Exports showed a decline of 36.5 per cent to a level of 12,900 tons.

77. Cheese production in the USSR increased by 1 per cent during the first half of 1989. Imports during 1988 totalled 12,200 tons, showing a decline of 5.4 per cent compared to the 1987 level. Exports were also 5 per cent lower to a level of 5,600 tons.

78. Output of milk powders during the first half of 1989 increased by 3 per cent. Imports added up to 58,700 tons, which were almost 21 per cent lower than in the previous year.

79. The observer from the OECD reported that after the implementation of a number of programmes in different OECD countries, the supply and demand situation in the dairy sector had significantly improved. Dairy cow numbers had fallen from almost 50 million in 1985 to 43.2 million in 1989 and since the beginning of 1988 alone had come down by 2.1 per cent. Although milk yields had continued to increase, milk production had fallen by nearly 3.5 per cent since 1985. Milk fat consumption had continued to increase, and in 1989 had risen by 3 per cent. The OECD had prepared its medium-term forecasts until 1994, which would soon be made available to all member countries.

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

80. The Committees reviewed the level of the minimum prices of products covered by the three Protocols on the basis of the criteria established by the Arrangement.

81. The representative of New Zealand drew attention to Article 3:3(b) of the International Dairy Arrangement which provided for a review of minimum export prices at the September meetings of the Committees in accordance with the criteria based on the need to maintain a long-term minimum return to the most economic producers, to improve the relationship between the levels of the minimum prices and dairy support levels, and market price developments and outlook. It was clear that costs had risen partly due to feed cost increases, among other factors. At current prices, farmers' incomes in New Zealand had not yet recovered to levels achieved in the 1970's to those of 1986. Minimum returns to producers had to be set at

levels which would sustain farmers' incomes at reasonable levels and confidence in the dairy industry's future. The need to maintain stability of supply also warranted a realistic level of minimum prices. As regards the relationships with support levels in major producing countries, the minimum price as a percentage of the EC intervention price was 35 per cent and only 16 per cent of the Japanese indicative stabilization price. In other words, the ratios were on the whole worse than at the inception of the International Dairy Arrangement. Finally, as regards the market situation, current market prices were well above the minimum set last year. The supplies were generally tight and the outlook for the market was very positive. An adjustment to minimum prices in the past had served to restore balance in the market for which reason it was essential now to maintain a healthy growth in international dairy trade by more realistic minimum prices.

82. Thus, in pursuance of Article 3:3 of each of the Protocols, the Committees decided that the levels of the minimum prices specified in that provision would be raised (f.o.b. per metric ton) to US\$1,625 for anhydrous milk fat, US\$1,350 for butter, US\$1,500 for cheeses, US\$1,200 for skimmed milk and buttermilk powder, US\$1,250 for whole milk powder. The schedules of price differentials according to milk fat content were consequently modified. It was agreed that the decisions would take effect at noon on 20 September 1989, Geneva time.

83. The Committees agreed that the decisions would be duly recorded in the report and would be the subject of a Procès-Verbal signed by the Director-General of the CONTRACTING PARTIES to the General Agreement, certifying the entry into force of the new minimum prices and the new schedules of price differentials.

84. Joining the consensus, the representative of New Zealand, however, expressed the view that the consensus reached had been closer to what some other delegations had suggested rather than to his original proposal, which was nothing but a repetition of what his delegation had indicated a year earlier in September 1988 and had the support of several delegations. The proposed levels of minimum prices were justified in light of the existing market situation and the criteria set by the Arrangement. He could nevertheless accept it.

85. The representative of Uruguay expressed his full support for New Zealand's proposal. He, however, regretted the fact that the final compromise reached was very often different in nature than the original proposal. There was a certain degree of imbalance in the decision-making process of the Committees. When the situation was critical, the interests of the Community and its member States were seen in a more favourable light. When the situation was good, again the fears and concerns of the EC were given paramount importance. Such "unbalanced" decisions were very often contrary to our interests and needs under the Arrangement. Thus, the IDA had failed to meet the long-term needs and expectations of developing countries. He was, therefore, compelled to adopt a "wait and see" attitude towards the International Dairy Arrangement and other Arrangements of the same nature.

86. The representative of Egypt expressed his serious concern at the frequent increase in the minimum prices, which were to the benefit of exporters only and adversely affected the net food importing countries. His country had joined the Arrangement in the hope that its dairy import requirements would be met satisfactorily at reasonable prices, but the actual experience was that at each of the September meetings of the Protocol Committees the minimum prices were raised regardless of the needs and expectations of the developing importing countries. The Ministerial Declaration in enumerating general principles to govern the Uruguay Round negotiations had stated that these would, inter alia, "ensure mutual advantage and increased benefits to all participants". In fact, such regular price increases were to the detriment of net food importing countries, who had limited foreign exchange resources and were overburdened with enormous foreign debts. To counter the negative effects on net food-importing developing countries, measures should also be taken to alleviate the burden of increased prices on our import bill and balance of payments situation and to enhance our capacity to increase agricultural production, especially food production. The purpose of the International Dairy Arrangement should be not only to provide a minimum price safety-net for exporters, but also to ensure maximum price guarantees for the net food importing developing countries.

87. The spokesman of the Community agreed that interests of all participants should be considered. Minimum prices were a safety net below which market prices should not be allowed to fall. The criteria in Article 3:3(b) also took account of the interests of consumers by keeping prices acceptable to them. It was true that consumption levels were very low in developing countries because dairy products were expensive and these countries were consequently moving towards cheaper substitutes. The Community was committed to supplying some of these products under its food-aid programmes to these countries. In reviewing the new levels of the minimum prices, different countries had used different criteria but within the strict framework of Article 3:3. It was, however, obvious that the Committees had not sufficiently considered the impact of United States food donations on the market price level and the effect of increased dairy prices on the net food importing developing countries. While it was true that New Zealand had proposed the same price levels in September 1988, the market situation since then had changed and did not warrant an increase of that magnitude. The Committees should in any case be very careful in sending the right signals to the international market. The EC had paid a heavy price when, a few years ago, a wrong signal was sent to the market and the butter price was raised by 10 per cent. As a result, more than 1 million tons of butter stocks were accumulated and it took the EC five years to get rid of those stocks. So market realities should be kept in the forefront in changing the minimum prices. This is why the EC was in favour of a modest increase in minimum prices at this stage.

88. The representative of Australia said that market prices were heavily distorted due to the existence of various domestic support programmes. These distortions could only be removed by revising the minimum prices upwards. The levels of minimum prices should, however, be realistic, following closely on the heels of market prices. He was not sure whether

an increase in minimum prices had any adverse economic effect on the developing countries. On the contrary, cheaper imports often had had the effect of destroying price incentives and hampering local production. He was surprised to see that the Community was reluctant to raise the minimum export prices to a level corresponding to production costs of efficient producers. The reduction in export subsidies through increased minimum export prices could play a significant role in the stability of the world dairy market. He fully supported the statement made by Uruguay.

Adoption of report to the Council

89. The three Committees agreed that an oral report giving an account of discussions at the present session would be submitted to the Council. This report would be later incorporated in document DPC/33.

Dates of the next sessions

90. The next sessions of the Committees will be held consecutively on 11-12 December 1989, subject to confirmation by the secretariat. The Committees will meet in joint session, but separate meetings could be held in the order of Milk Powders, Milk Fat and Cheeses, if it was deemed necessary.

91. The Committees finally took note of the tentative time schedule for the regular meetings up to the end of 1990 which would be incorporated in document DPC/33. It was understood that any special session would be in addition to that schedule and that all dates would remain subject to confirmation by the secretariat.