

GENERAL AGREEMENT ON

RESTRICTED

DPC/PTL/13

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TARIFFS AND TRADE

Special Distribution

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 Forty-Second Session

18-19 June 1990

Introduction

1. The three Protocol Committees held a joint session on 18 June 1990, to discuss matters relating to the operation of the three Protocols and, on 19 June 1990, proceeded on a technical tour of the Canton of Fribourg, visiting the Agricultural Institute of the State of Fribourg at Grangeneuve, an agricultural farm in Treyvaux and a village cheese factory at Vaulruz.

Adoption of the agenda

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

A. Adoption of report on the forty-first session

B. Information required by the Committees:

(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. Transactions other than normal commercial transactions

D. Sales under derogations

E. Review of the market situation for products covered by the Protocol

F. Dates of the next session

G. Report to the Council

Adoption of report on the forty-first session

3. The report of the forty-first session was adopted as amended and distributed in document DPC/PTL/10.

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 first quarter of 1990 to do so without further delay. They were also requested to provide the necessary information in respect of the second quarter by 14 September 1990, at the latest.

(b) Summary tables

5. The Committees took note of the summary tables based on information provided by participants in Tables A and B of the questionnaire in respect of milk fat, skimmed milk powder and whole milk powder and cheeses and issued respectively in documents DPC/PTL/W/17, DPC/PTL/W/18 and DPC/PTL/W/19. The Committees were informed that these figures would be further updated as soon as more recent information was made available.

(c) Other information

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

Transactions other than normal commercial transactions

7. The representative of Australia informed the Protocol Committee Regarding Certain Milk Powders that 603 metric tons of skimmed milk powder worth \$A 1.5 million had been given to Cuba through the World Food Programme as food aid in February 1990.

8. In reply to a question by the European Community as to whether it was an outright gift or a sale on concessional terms, he said that it was an outright gift for assisting worthwhile development projects in Cuba.

9. On this occasion, the delegations were reminded of their obligation to regularly supply such information on food aid and transactions other than normal commercial transactions in conformity with the provisions of Article V of the Arrangement and Rules 23 and 30 of the Rules of Procedure.

Sales under derogations

10. The Committee of the Protocol Regarding Certain Cheeses took note of the information provided by New Zealand concerning its sales of low quality cheese in accordance with Article 7:2 of the Protocol in the first five months of 1990 (DPC/C/W/26/Add.13/Rev.1).

11. The representative of New Zealand made it clear that the need to export low quality cheese from time to time had been foreseen by his country and this was spelled out in the interpretative note to the original Protocol. No recourse to this provision had, however, been made in the past two years due to generally improved market conditions, but small quantities of such cheese had now to be exported again this year partly due to the fact that such low quality cheese could not be reprocessed in his own country and also because there was a demand for such cheese in the international market. It was probable that such exports in 1990 might even exceed the ceiling of 2,000 tons prescribed in the original interpretative note.

12. Expressing his concern, the spokesman of the Community said that New Zealand had made no such sales in the last two years when prices were generally better and production was higher. Now that the market situation was fragile and prices were under some pressure, New Zealand had started to export significant quantities of low quality cheese over and above its normal commercial exports. These low cost supplies were in direct competition with the sales from other participants. Furthermore, in normal circumstances the Article 7:2 derogation covered sales below the minimum prices up to 1,000 tons, and only in exceptional circumstances up to a maximum of 2,000 tons. Exports in excess of this maximum could in no circumstances be justified by New Zealand. Under the provisions of Article 7:2, furthermore, it was obligatory for New Zealand to have notified the GATT secretariat in advance of its intention to export low quality cheese at below the agreed minimum price. The notification had come months after the actual sales had taken place and thus the transparency was ostensibly lacking. It should, therefore, be urged for New Zealand to observe more seriously the provisions of Article 7:2 of the Protocol in the future.

13. Explaining its position, the delegate of New Zealand said that exports of low quality cheese were only a small fraction of total domestic production. Generally, the low-priced cheese was exported when certain quantities had deteriorated in quality due to storage problems and these could not be reprocessed domestically. His country could not be accused of lacking in transparency since it provided all the required information to the Committees on a regular basis. Exports of such cheese to the EC were controlled strictly under arrangements of forward processing and therefore there was no lack of transparency on their part. As regards the notification requirements, the obligation was being fully met on a quarterly basis when the Protocol Committee met to consider such notifications.

14. Summing up, the Chairman reiterated the need for all the participants to be more transparent and to observe more closely the provisions of Article 7:2 of the Protocol in regard to the requirement of prior notification of all such sales at below the agreed minimum prices.

Review of the market conditions for products covered by the Protocols

New Zealand

15. In New Zealand, production of manufacturing milk in the 1989/90 season, ending 31 May, was provisionally estimated at 329 million kgs. of

milk fat or 7 million tons of milk. At this level it was 5.8 per cent higher than in 1988/89, but 6 per cent lower than the peak year of 1985/86 and close to the average level of production in the past five years. Given favourable climatic conditions, production for 1990/91 was projected at 340 million kgs. of milk fat or 7.3 million tons of milk.

16. Despite a higher level of milk production, cheese production at 122,000 tons was lower than in the previous two seasons. Allowing for domestic market requirements, the volume available for export was approximately 95,000 tons. Production was adjusted downwards during the season as export sales did not attain the expected levels. In particular, requirements for the Japanese market were reduced in light of competition faced from certain quarters.

17. The production of whole milk powder (including infants' formula) totalled 177,000 tons, of which approximately 5,000 tons was used domestically and about 170,000 tons was exported. This compared with 195,000 tons in 1988/89 and 179,000 tons in 1987/88. This product was made against firm market needs and the substantial reduction in the current season reflected the lack of business in certain key markets, notably the USSR, Venezuela and Sri Lanka.

18. The lower whole milk production was reflected in higher production of skimmed milk powder and butter. Skimmed milk powder production was at 189,000 tons, including 8,000 tons for dairy company domestic needs and 180,000 tons for export. Sales had been maintained in line with production so that the Dairy Board's supply position was balanced.

19. As regards stock levels at the end of March 1990, the position was as follows:

Butter oil	30.0
Butter	84.9
Buttermilk powder	22.5
Skimmed milk powder	82.0
Whole milk powder	46.4
Cheese	86.7

These figures included both committed and uncommitted stocks and were seasonally high.

20. As regards New Zealand dairy industry developments, the basic price for manufacturing milk produced during the 1988/90 season had been finalized at NZ\$5.80/kg. milk fat (approximately US\$0.16/litre of milk). Due to an adverse market supply and demand situation, which had caused international prices for certain dairy products to drop in late 1989 and early 1990, the advanced price for milk for the 1990/91 season (commencing 1 June), had been reduced to NZ\$4.00/kg. milk fat (approximately US\$0.11/litre of milk). This showed a very substantial reduction in price which the New Zealand farmer was obtaining. The gross price received by the farmer had fallen by at least 20 per cent in the coming season as a result of the reduction in international prices. The effect on net returns

of farmers would be close to 50 per cent, which was currently a matter of serious concern to the New Zealand dairy industry.

21. Commenting on international market developments, the delegate of New Zealand said that the dairy markets were now beginning to settle following an eight-month period of price decline. These settled conditions were likely to continue, except for butter where uncertainties remained. The market outlook for butter and related products was unsettled mainly because of uncertainty about the Soviet Union's requirements and their ability to pay. The situation had been exacerbated by events in Eastern Europe whereby Poland had, in the first half of the year, exported surplus supplies to the international butter market. Currently, the international market prices for butter ranged between US\$1,350 and US\$1,450/ton f.o.b. and for butter oil between US\$1,625 and US\$1,630/ton f.o.b.

22. Less casein production, together with the EC's programme reduction of subsidized disposal schemes for skimmed milk powder had led to an on-going easing of skimmed milk powder pricing in Europe which had affected the export market generally. The fall in butter prices, together with the easing of the skimmed milk powder market, was pushing the whole milk powder prices lower. Thus, export prices currently were in the range of US\$1,600-US\$1,700/ton for skimmed milk powder and US\$1,500-US\$1,600/ton for whole milk powder f.o.b.

23. More cheese had been produced in the EC over the past six months, as returns for butter/skimmed milk powder had fallen. This had been partly absorbed by increased consumption but had generally led to an easing of prices from April for brine salted cheese. Presently, export prices for Cheddar cheese were US\$1,750-US\$1,800/ton f.o.b. and for Gouda cheese were US\$1,700-US\$1,800/ton f.o.b.

24. Reviewing the general international market situation, the representative of New Zealand singled out two major issues for a closer scrutiny by the Protocol Committees. These were a threat to the minimum prices fixed under the Milk Fat Protocol and the related issue of market disruption from Eastern European exports, especially from Poland. The threat to the minimum prices emanated from the collapse in butter and butter oil prices over the last six months. The major factors in this situation were: (i) Increased supplies from some East European countries, especially Poland and the German Democratic Republic, reflecting not only consumption developments in these countries but also the breakdown of established arrangements for trading butter in the COMECON Bloc. Poland had reportedly made two big sales of 10,000 tons of butter to the USSR at very low prices. Efforts to obtain confirmation of these two sales had come to naught. While it was appreciated that important reforms were under way and the trading structures were in a state of flux, the Polish authorities should, however, be reminded of their obligation under the International Dairy Arrangement to respect the minimum prices. Further to these sales to the Soviet Union, with the possibility of direct hard currency earnings from exports, there had been widespread offers of butter from Poland and East Germany to Western European traders which had been reflected by these traders in their offers in Egypt and other markets in

the same region and sales for reprocessing. The quantities involved were not known, but reports of offers such as 1,000 tons of East German butter at US\$1,000/ton delivered to a major Western European butter oil processor were typical. (ii) The second source of pressure on minimum prices was the inward processing arrangements (IPR) of the European Community. Cheap butter sourced mainly from Eastern Europe had been traded and processed through the Community at prices below the minimum prices. It was understood that this development had already had one member State, France, to suspend unilaterally the IPR arrangements for butter/butter oil. But the problem remained for other member States, notably Belgium, where butter oil processing was concentrated. Given that this trade was allowing import and export of dairy products at prices below the GATT minimum and was concurrently contributing to the severe pressure on the butter oil market, the EC should be asked whether any remedial action could be taken. (iii) The third source of threat to minimum prices was the fall in butter prices in the EC from November 1989 together with the 22 February 1990 increase in export subsidies which brought EC export prices for butter down to the minimum. In the case of butter oil, however, the changes brought the range of possible prices below the minimum and this resulted in offers of Community origin product below US\$1,625/ton f.o.b. Specific examples of offers and prices below the minimum had been brought to the attention of the Community. Though the Community had not so far made any direct policy response to rectify the problem, certain other mitigating developments had in the meanwhile taken place. There had been a modest firming of butter and butter oil prices in the Community because of modifications to support arrangements and for seasonal reasons; and, more important the weakening of the US dollar against Community currencies between February and mid-May helped by lifting Community export prices denominated in that currency and therefore improved the relationship with the minimum price. Since the new EC farm year, however, which began on 14 May, the ECU had weakened against the United States dollar, which had exacerbated the low price environment implying that EC butter oil prices were still in the danger zone on and around the GATT minimum. New Zealand felt strongly the need for the EC to reduce its butter oil restitutions urgently or to introduce some other export control mechanism if it was to ensure a respect for the minimum price. There were two recent quotes which could be discussed with the EC in this connection. (iv) The last source of pressure on the minimum price was the North American butter sales. In May a disposal sale of 2,000 tons of butter from Canada was made by the Canadian Dairy Commission to Algeria. No prices had been indicated, but these were obviously below the GATT minimum. Canada is not a member of the Arrangement and as an observer was not bound by the "minima". This sale by Canada was not at all helpful. It had not sold butter to Algeria before and the present subsidized sale was made to alleviate domestic surplus. It, however, did not help those who relied for their living on the international market. The second sale was by the United States, which sold 5,000 tons of butter oil to Algeria under the Dairy Export Incentive Program. Details regarding the price level had not been provided, but it had been indicated that a subsidy equivalent to US\$1,843/ton of butter oil had been provided. This brought the selling price down to US\$1,625/ton for butter oil, indicating that subsidy was greater than the minimum price. While New Zealand was concerned at further potential for sales under the Export Incentive Program, it was also clear

that after June the United States production would drop off and traditionally after the spring flush a good deal of butter pad was used seasonally in ice-cream production.

25. Concluding his analysis, the representative of New Zealand remarked that a fundamental difficulty faced by butter exporters was that the international market for butter was extremely small and was dominated by the USSR. Although there was a high degree of uncertainty about that market's future requirements, it seemed to be of the order of 200,000 tons annually. The Russians had bought substantially larger volumes in the past when supplies were cheaply available from the European Community. The USSR market alone was greater than a combination of all other markets for butter, which was expected this year to take no more than 175,000 tons (excluding New Zealand's quota trade with the United Kingdom). The problem for New Zealand was that the bulk of butter exports was from subsidized exporters, such as the European Community. The United States' entry in this market compounded the problems. In practice, export prices for butter were set by the levels of export subsidies paid by the Community and other such suppliers. The movement of prices and in particular the recent collapse had had less to do with commercial or economic considerations, it was rather a consequence of the competitive subsidization of exports. In the circumstances it was important for New Zealand to export butter to the USSR from each season's production, since no alternative export markets were available to it. It was, however, being squeezed between the Community and the United States. The USSR was playing one against the other to obtain the cheapest supplies and the final result was bad for all exporters. The butter prices had thus plummeted. Unless something was done, the process was simply going to continue. In buying the butter they need, the Russians used their dominant position to extract ever higher subsidy offers from potential suppliers in Europe and also from New Zealand itself, which had to match these prices to remain competitive. As prices were close to the GATT minimum, it was vital that they should not be allowed to fall further. This required a joint action by all major players. New Zealand was looking forward to negotiating a further butter sale to the USSR this year, but at the current prices it could not compete with other suppliers. The situation had to be normalized in the framework of the Uruguay Round where all subsidies on primary products were to be phased out.

26. In order to maintain the integrity of the minimum pricing structure, the Protocol Committee Regarding Milk Fat should consider the following programme of action: (a) it should address a request to the European Community to review the calculation of the current level of the export subsidy paid on butter oil against the possibility of minimum price breaches; (b) the EC should also be invited to review the operation of the "inward processing arrangements" (IPR) for butter and butter oil and make modifications so that trading of product below the minimum prices was prevented and the minimum prices respected; (c) the Polish authorities be asked to report full details of their exports of butter and steps being taken to respect minimum prices; (d) Canada should be asked to provide details of the sale made by the Canadian Dairy Commission to Algeria and for a clarification of its policy and intentions with respect to the IDA

minimum prices; and (e) a representation should be made to the United States and the EC authorities drawing their attention to the existing pressure on minimum prices of butter and butter oil and urging greater restraint from subsidized exports of these products to the USSR so as to permit unsubsidized exporters also a share in this market. Attention of the United States' authorities to the fragility of the butter market had been drawn bilaterally and at formal meetings and it was hoped that further chaos would be prevented.

27. Finally, in regard to skimmed milk powder, the representative of New Zealand pointed out that offers of exports had been made in the last few months by some East European countries, in particular, by Poland and Czechoslovakia. These offers, at below the minimum prices, appeared in Japan and some South East Asian countries, North Africa and for general trade in Europe. There was no commercial competitive basis for such sales, with no competitors pricing close to these levels. This was, however, disruptive of established trade by other exporters. If it persisted it would undermine the generally established structure of prices. Uncertainty about the actual and potential volumes of product involved had tended to compound the negative market impact. Hence, the Polish authorities should further be requested to provide a clarification of the position and their intentions with regard to compliance with the minimum prices for exports of skimmed milk powder.

Japan

28. In Japan, milk production in the first quarter of 1990 increased by 4 per cent as compared to its level in the corresponding period of the previous year. While the increase in production of drinking milk was only 1.4 per cent, butter output increased by 10.6 per cent and skimmed milk powder by 14 per cent. In parallel, the consumption of different dairy products also increased, although the rate of increase compared unfavourably with that achieved in 1987-88. A slightly downward trend was discernible in the evolution of price levels. In March 1990, the Japanese Government lowered the guaranteed price to milk producers by 2.6 per cent to Y 77.75/kg. and the standard transaction price by 1.9 per cent to Y 65.98/kg. The stabilization indicative prices for butter and skimmed milk powder were reduced by 2.5 per cent.

29. Production of skimmed milk powder in the first quarter increased by 14 per cent due to an increase in milk production and to a relative decrease in demand for fresh drinking milk. Imports during the twelve-month period between April 1989 and March 1990 totalled 91,000 tons, showing a decrease of 27 per cent in relation to the same period a year before. This was due to an increase of 30 to 50 per cent in the international prices and a return to a better supply and demand balance in the domestic market.

30. Butter production in the first quarter increased by 10.6 per cent. Imports totalled 1,100 tons during this period and the average import price was 56 per cent higher compared to its level in the corresponding period of the previous year.

31. Cheese production increased only by 1.2 per cent in the first quarter, but imports of processed cheese were 2.2 times more at 426 tons, as a result of the abolition of import quotas with effect from 1 April 1989. Imports of natural cheese, however, decreased by 6.5 per cent to 109,000 tons and the import prices remained high, showing an increase of 24.9 per cent in relation to the corresponding period of last year. However, import prices of processed cheese fell by 6.1 per cent during this period.

32. In reply to an EC question as to whether melted cheese containing skimmed milk powder, casein or lactose could be exported to Japan under the new tariff classification 04.06.30, the representative of Japan confirmed this after enquiries from the capital. In this connection, he mentioned that according to the international standard which his country had accepted for melted cheese, the addition of other milk products such as butter and butter oil also was covered by the same tariff line.

Bulgaria

33. The representative of Bulgaria stated that while he did not have the milk production figures for the first quarter of 1990, the unofficial information suggested that the downward trend in production had been reversed.

34. Cheese output in the first quarter increased by 200 tons to 33,500 tons compared to the level in the same period of last year. Exports were also higher, from 2,700 tons in the first quarter of 1989 to 3,400 tons in the first quarter of 1990. The main export outlets were the Soviet Union, the United States, Cuba and Australia. While there were no imports of cheese in the first quarter of 1989, about 700 tons of cheese were imported during the first quarter of 1990 from the Federal Republic of Germany and Austria.

35. There were no imports or exports of skimmed milk powder in the first quarter of 1990. Imports of butter milk powder dropped from 1,000 tons to 900 tons in the first quarter, mainly from the Federal Republic of Germany. Imports of whole milk powder increased from 1,100 tons in the first quarter of 1989 to 2,000 tons in the corresponding period of 1990; the main sources being the Federal Republic of Germany, Belgium, the Netherlands, Austria and Norway. A small quantity was exported to Hungary.

36. Butter production increased by 200 tons to 5,300 tons in the first quarter of 1990 as compared to the same period of 1989. Data for butter exports was not yet available. Imports decreased from 3,000 tons in the first quarter of 1989 to 2,000 tons in the first quarter of 1990. The main sources of imports were the Federal Republic of Germany and France.

Australia

37. Australian milk production in the first quarter of 1990 at 1,484 million litres was 3.2 per cent lower than the level in the same period of last year, reflecting abnormal drought conditions in Victoria.

38. As regards the butterfat situation, production on milk fat equivalent basis increased by 18.4 per cent during the first quarter of 1990, compared to its level last year, reflecting increased export demand for skimmed milk powder. Total butter/anhydrous milk fat production in 1988/89 at 107,000 tons was 6.3 per cent higher than in 1988/89. Total demand for butter seemed to have stabilized due to increasing consumer awareness of fat in food. At 55,000 tons in 1989/90, it was only marginally above the figure of 54,800 tons in 1988/89. Exports of butter had dropped by 4.4 per cent from 52,300 tons in 1988/89 to 50,000 tons in 1989/90 due to intense competition in the world market. Closing stocks had consequently risen from 16,000 tons to 18,000 tons at the end of June 1990. Average export prices for butter were of the order of US\$1,400/ton f.o.b. and for anhydrous milk fat US\$1,650-US\$1,750/ton f.o.b.

39. Cheese production in the first quarter of 1990 at 45,500 tons consisted of 30,000 tons of Cheddar and 15,400 tons of non-Cheddar types, and represented a 7.6 per cent decline compared to the corresponding quarter of 1989. The major decline was in the non-Cheddar types. Total production in 1989/90 was expected at 183,000 tons, or 3.9 per cent less than in 1988/89. There had been a substantial decrease in Australian exports of cheese over the last two years, from 73,600 tons in 1987/88 to 51,500 tons in 1989/90. Domestic consumption of cheeses, however, had significantly increased and had to a greater extent offset the loss in exports. At 132,000 tons in 1989/90, it was 3.4 per cent more than in 1988/89. Average export prices for Cheddar cheese were in the range of US\$1,700-US\$1,800 per ton f.o.b.

40. Production of skimmed milk powder/buttermilk powder in the first quarter of 1990 at 31,200 tons compared favourably with the level of 26,000 tons in the corresponding quarter of 1989. In 1989/90, total production at 136,500 tons was estimated to be 7.6 per cent higher than in 1988/89. Exports at 95,000 tons were 28 per cent more than in the previous year, but domestic consumption was slightly lower from 41,400 tons in 1988/89 to 40,000 tons in 1989/90. Average export prices for skimmed milk powder were US\$1,500-US\$1,600 per ton f.o.b.

41. Output of whole milk powder in the first quarter of 1990 declined by 39 per cent from 11,900 tons to 7,600 tons. The reason for this decline was the difficulty to conclude sales on the world market. Exports in 1989/90 at 45,000 tons were 7 per cent less than in 1988/89. Average export price for whole milk powder was in the range of US\$1,400-US\$1,500 per ton f.o.b.

42. While fully supporting the views expressed by New Zealand, the representative of Australia observed that the international dairy outlook was rather gloomy. A number of factors were responsible for this situation. The first was the USDA forecasts for the world milk production which was expected to increase by 1.5 per cent. The second was the anticipated increase in exports of milk fats from the United States. Then there was a combination of factors operating in the European Community, including the effects of a relaxation of milk quotas last year; increased subsidies for domestic consumption; and, the domestic price packages

affecting producer returns internally. There was the general uncertainty regarding the imports of butter by the USSR and the dominance of the world market as a consumer. Finally, there was the question of availability of exports from some East European countries, in particular from Poland. Pressures on minimum prices arising from exports to Algeria from Canada and the United States were also a source of serious concern. The adverse effects of all these factors were being compounded by a general decline in consumption of dairy products. In light of all these developments, he was fully in accord with the course of action proposed by New Zealand. To cope with the fragile market situation, he was also in favour of seeking a closer co-operation from the EC, Canada and the United States.

Argentina

43. In Argentina, the production of milk in the first quarter of 1990 decreased by 18 per cent in relation to the fourth quarter of 1989 and by 12 per cent in relation to the corresponding period of 1989. The decrease in production was due to: (i) drought conditions in the centre of the country; (ii) heavy rainfall in the province of Buenos Aires and in part of Santa Fe at a time when reserves were accumulated; (iii) a deterioration in production due to hyper-inflation at the end of the year; (iv) lesser use of cereals as fodder leading to a decline in production as yields per cow decreased by more than 10 per cent.

44. In the beginning of 1990, stocks of dairy products increased due to a decline in domestic consumption (estimated at around 30 per cent) and expectation of increased exports to Brazil at higher prices. In March 1990, demand picked up in the domestic market and shipments to Brazil began. As a result, the stocks of cheese returned to more normal levels, but stocks of milk powders and butter remained at high levels.

45. In the first quarter of 1990, exports of dairy products decreased by 85 per cent in relation to the corresponding period of 1989. This trend was, however, expected to be reversed in the following months.

46. The outlook for 1990 was that domestic consumption was expected to recover due to economic stabilization and production was likely to increase in 1990, though not higher than in 1989, provided the weather conditions in spring remained favourable.

47. The representative of Argentina finally expressed his serious concern at the Polish sales of skimmed milk powder at below the minimum prices. A quantity of 2,000 tons of skimmed milk powder at around US\$600 per ton f.o.b. had been sold in May to Brazil, which was one of Argentina's main outlets of sale.

Switzerland

48. In Switzerland, milk deliveries during the first five months of 1990 (ending May), totalled 1.274 million tons as compared to 1.313 million tons in the same period of last year, showing a drop of 3.8 per cent.

49. Butter production in the first quarter of 1990 was up to 9,785 tons or by 2.2 per cent as compared to its level in the corresponding period of last year. Imports dropped by 530 tons, while consumption of butter was relatively stable at 10,158 tons. Stocks had been slightly reduced from 5,642 tons in January-March 1989 to 5,077 tons in January-March 1990, thus indicating that the butter market had somewhat stabilized.

50. Cheese output during the first quarter also rose by 2.8 per cent to reach a level of 29,800 tons as compared to 29,000 tons in the same quarter of the previous year. Imports remained stable at 6,000 tons, but exports fell somewhat from 14,600 tons to 13,700 tons. Consumption of cheeses was increasing and stocks were stable at 22,000 tons.

51. Production of skimmed milk powder in the first quarter at 7,300 tons compared favourably with the level of 6,700 tons in the same quarter of last year. Consumption was considerably higher. Domestic prices had increased somewhat.

52. The output of whole milk powder showed a slight decrease from 3,700 tons to 2,500 tons in the first quarter of 1990. Imports also decreased from 700 tons to 500 tons over the same period. Consumption also dropped. Prices remained relatively stable.

Sweden

53. In Sweden, milk deliveries in 1990 were expected to increase by 1 per cent from their level of 3.42 million tons in 1989. No forecasts for the coming years were possible considering that a new agricultural policy was to be implemented with effect from 1 July 1991.

54. Butter production in the first quarter totalled 14,900 tons, showing an increase of 3,500 tons over the level in the same period of 1989. Both consumption and exports of butter dropped during this period. As had been mentioned earlier, the export situation had become more difficult even though offers had been reduced by the exporters to the IDA minimum. As a result, stocks of butter had increased to 10,000 tons.

55. In the first quarter of 1990, production, stocks, consumption and exports of skimmed milk powder increased compared to their levels in the same period last year. The forecast for 1990 was that while consumption would remain stable, production and stocks would increase relative to the year before. Average export price for skimmed milk powder in early June was US\$1,500 per ton f.o.b.

56. Cheese output in the first three months of 1990 at 26,700 tons was 2 per cent lower than in the corresponding period of 1989. While both exports and imports were expected to decrease somewhat, production and consumption of cheese were likely to increase in 1990.

Norway

57. Milk deliveries in Norway during the first three months of 1990 were higher than during the same period last year. However, due to a change in

the Norwegian two-price system, these were expected to decrease during the second half of 1990. All in all, milk deliveries for the entire year would be around 1,850 million litres or roughly the same as in 1989.

58. Butter production during the first quarter decreased by 6 per cent compared to the level in the first quarter of 1989. A further decline was expected so that production for 1990 would be 5 per cent lower than in 1989. Consumption of butter was still declining and was expected to be 10 per cent down compared to last year. However, the indications were that the decline, which had prevailed in the last few years, had now slowed down. About 7,000 tons of butter had been exported so far, all of it to the Soviet Union, and in the price range of US\$1,550-US\$1,650 per ton f.o.b. The total for butter exports in 1990 was expected to reach 9,000 tons. The prevailing export prices were difficult to obtain in the future due to a difficult international market situation.

59. Cheese production during the first quarter was higher than in the same period last year, but the total for 1990 was expected to be the same as last year. Consumption had declined somewhat in early 1990, but was expected to rise later in the year so that the total for 1990 would equal that for 1989. Imports had also risen, although the total for 1990 should remain unchanged. Exports during 1990 were also expected to remain unchanged at 21,000-22,000 tons. Besides exports to the traditional markets such as the United States, Canada, Sweden, the EC and Japan, 1,000 tons of cheese were exported to Romania and 500 tons to Yugoslavia. As part of the final instalment of a food-aid package, 530 tons of cheese were exported to Poland.

60. The situation with regard to milk powders was normal. Much of this was returned to producers as animal feed. About 500 tons were exported to Ethiopia through a Church Aid Programme. No further exports were expected during the current year.

Finland

61. In Finland, milk deliveries during the first quarter of the year were 7.7 per cent higher than in the corresponding period of last year, when the level was exceptionally low due to a bad harvest a year earlier. Average yield per cow was now recovering, while the number of cows was declining. Estimates for 1990 indicated that deliveries would remain unchanged at last year's level or slightly increase staying within the level of 2,500-2,560 million litres.

62. Butter production in the first quarter was about 5 per cent higher than in the same period last year. Estimates for the whole of 1990 indicate that it would decline by 3 per cent over the level of the preceding year. Consumption during the first quarter fell by 25 per cent and was expected to be 11 per cent lower over the year. Exports in the first quarter totalled 6,300 tons and the average export price was reckoned at US\$1,640 per ton f.o.b. Stocks were 15,100 tons at the end of March 1990.

63. Cheese output during the first quarter increased by 12 per cent compared to the level of the same period last year, but was expected to remain unchanged for the year as a whole. Consumption was increasing. Exports totalled 5,600 tons and the average export price was US\$3,400 per ton f.o.b. Stocks remained at 12,100 tons.

64. Production of skimmed milk powder during the first quarter was down by 41 per cent, while stocks had increased to a level of 14,400 tons. Exports totalled 700 tons at an average price of US\$1,825 per ton f.o.b.

65. The output of whole milk powder had reached the level of two years ago. About 5,400 tons had been exported in the first quarter at an average price of US\$1,702 per ton f.o.b. Stocks were 4,900 tons at the end of March 1990.

66. Finally, speaking on behalf of the Nordic countries, the representative of Finland expressed her serious concern at the overall dairy market situation which was more recently characterized by a steep fall in butter prices and the rumours of offers by some participants in the Arrangement below the minimum prices. It was imperative that necessary steps were taken to stabilize the market conditions and to observe the provisions relating to minimum export prices. If prices continued to deteriorate, the Committees would have to address this question at its September meeting to evolve a more concrete strategy.

South Africa

67. In South Africa, a new private organization, namely the Dairy Service Organisation, was set up in March 1990, to meet the specific requirements of the dairy industry and consumers. The purpose of this agency was to provide efficient and cost-effective professional services to the dairy industry with a view to achieving stability and growth.

68. During the twelve-month period between March 1989 and February 1990, milk production continued to increase and resulted in a surplus of 1.9 per cent. This surplus would be reduced by exports of skimmed milk powder during the current year. On an annual basis, milk production was estimated to have increased at a rate of 3.6 per cent. In the first quarter of 1990, milk production at 500,126 tons was expected to decrease by 13.4 per cent to reach a level of 432,971 tons during the second quarter, due mainly to the approaching winter period. Milk consumption was expected to decrease by 1.5 per cent from 477,389 tons in the first quarter to 470,108 tons in the second quarter of 1990.

69. Production of skimmed milk powder, as estimated by the Dairy Board, for the second quarter was 4,525 tons or 34.1 per cent lower than in the first quarter. Consumption was also expected to be 11.2 per cent lower to a level of 4,200 tons in the second quarter. Exports were likely to be 2,000 tons and stocks to be 8,500 tons by the end of June 1990.

70. The production of whole milk powder at 2,070 tons for the first quarter was likely to increase to 2,454 tons in the second quarter. Consumption, which was a little higher than expected in the first quarter

came down to 2,165 tons in the second quarter of 1990. Exports during the same period increased from 171 tons to 200 tons, and stocks at the end of March 1990 were 1,510 tons.

71. Butter production at 5,598 tons for the first quarter of 1990 was 14.8 per cent higher than expected and would be 3,120 tons for the second quarter. As against this, butter consumption in the second quarter was expected to be 4,343 tons. Butter imports during the first quarter totalled 754 tons and exports were only 74 tons. A further 230 tons of exports were estimated for the second quarter.

72. In the second quarter of 1990, the output of Gouda cheese was expected to reach a level of 5,534 tons and Cheddar cheese 4,598 tons. Consumption at 10,349 tons would be 6.8 per cent lower than in the second quarter of last year. No imports or exports were expected and stocks were likely to reach a level of 9,650 tons by the end of June 1990.

Poland

73. The representative of Poland stated that as from 1 August 1989 all subsidies on dairy products had been abolished, except those on low-fat drinking milk and low-fat cottage cheese. As a consequence, the retail prices of dairy products had risen four to five times and consumption had been reduced and stocks had piled up. Compared to its level in the first quarter of 1989, consumption of butter in the first quarter of 1990 had fallen by 50 per cent from 8.5 kgs. to 4.2 kgs. in per capita terms, while cheese per capita consumption (except cottage cheese) had gone down by 40 per cent from 3.5 kgs. to 2.1 kgs. Instability of the domestic market was clearly demonstrated by the range of prices paid to farmers for milk delivered. Prices varied from Zl 300/litre to Zl 1,200/litre, depending on the region.

74. In addition, the efforts of the Government to curb inflation had put some dairies in a very difficult financial position when interest rates shot up to as much as 40 per cent per month in January 1990. Furthermore, the subsidy for butter storage was abolished in February 1990, causing more difficulties for farmers.

75. Concurrently, in the process of decentralization of the economy a new law was passed on 7 February 1990, in accordance with which all central unions of co-operatives were dissolved, including the Central Union of Dairy Co-operatives and the regional unions. The dairy industry was currently faced with the task of changing its ownership structure. Capital shares held by farmers in each particular dairy were very small, constituting less than 1 per cent of the total dairy assets.

76. In light of the on-going transformation of the market economy, the dairy industry was likely to go through a long difficult transitional period.

77. In reply to a specific EC question as to whether dairy products had been exported to certain destinations at below the minimum prices, the Polish representative informed that no sales of butter, whole milk powder

and cheeses had been made at below the GATT minimum prices. Only one sale of 10,000 tons of butter to the USSR had been concluded at the end of March 1990 at a price of US\$1,350 per ton f.o.b. Of this total, about 6,000 tons of butter had already been shipped and 4,000 tons was outstanding. Responding to another question of whether any export controls existed to monitor minimum export prices, he confirmed that all exports were controlled by an export licensing system which clearly showed the terms of the contract and the export prices. Though Polish trade was now liberalized, all exports were still regulated by export licences. Poland fully respected its obligation regarding the minimum export prices under the International Dairy Arrangement.

European Economic Community

78. According to preliminary indications, dairy cow numbers in the EC at the end of 1990 would be 22.93 million, which would be 1.2 per cent smaller than in the beginning of the year. Like in most other countries, milk deliveries would register a slight increase of 0.6 per cent to a total of 99.38 million tons compared to 98.83 million tons in 1989. This increase would be due to the exceptionally mild weather conditions in the winter. The upward trend could, however, be reversed in the coming months if the favourable weather conditions did not continue.

79. As regards various dairy products, butter production was forecast to be around 1,736,700 tons in 1990, as compared to 1,726,600 tons in 1989, and butter consumption would total 1,461,500 tons or 4.7 per cent less than its level of 1,532,000 tons in 1989. The use of butter in the pastry and ice-cream manufacture had recently been encouraged by further incentives. Total production of milk powders was expected to show a slight decline from 2,358,000 tons in 1989 to 2,350,000 tons in 1990. The production of skimmed milk powder in 1990 was forecast at 1,455,000 tons while that of whole milk powder at around 690,000 tons. A proposal had recently been adopted to make compulsory the use of at least 50 per cent of skimmed milk powder in compound feed as its use for animal feed had decreased by 9 per cent in the beginning of 1990. The Community's production of cheese in 1990 was forecast at around 4,929,000 tons, marking an increase of 2.5 per cent in relation to 1989 when it was 4,807,000 tons. Consumption was also expected to increase by 1.2 per cent to 4,564,000 tons.

80. On 14 June 1990, public stocks of butter stood at 100,000 tons and private stocks at 90,000 tons. The public intervention stocks of skimmed milk powder totalled 107,000 tons on the same date.

81. The spokesman of the EC in passing, observed that though there were good reasons to increase the level of export restitutions, such as the increased competition in the international market for some of the dairy products and substantially lower offer prices made by other traders, no such increase was being envisaged.

82. As regards the general market situation, he observed that since October 1989, a slide in international dairy prices had been triggered by certain countries which sold butter at below the GATT minimum prices, thus

rendering the butter market unstable. The Community's lowest export prices were in the range of:

US\$1,680 per ton, f.o.b., for skimmed milk powder;
US\$1,560 per ton, f.o.b., for whole milk powder;
US\$1,460 per ton, f.o.b., for butter;
US\$1,930 per ton, f.o.b., for butter oil;
US\$2,000 per ton, f.o.b., for Cheddar cheese.

83. Preliminary figures for the earlier months of 1990 indicated that exports of skimmed milk powder had increased by 37 per cent compared to the level of the same period in 1989, but butter exports had decreased by almost 54 per cent over the same period. Exports of cheese had increased by 11 per cent.

84. With reference to the overall market situation, the spokesman for the Community observed that world prices would continue to weaken in the course of 1990 due to the uncertainties related to the USSR market as a dominant importer of butter; weakening of demand for butter on the world market and a reduction of assistance provided for promoting the consumption of butter and milk powders in the member States of the EC resulting in a drop in consumption. More recently, increased retail prices in Eastern European countries had also affected adversely the consumption of dairy products. The international prices had deteriorated due to certain sales of butter at below the minimum prices. The EC was not able to compete with such exporters at such low prices, unless the level of export restitutions was increased. But the EC had no intention to increase its restitutions and to further add to the pressures on the existing minimum prices. At the same time, the Community was not prepared to reduce its export restitutions for the obvious reason that it was unable to export even at their present levels.

Canada

85. The observer from Canada informed the Committees that the Canadian Milk Supply Management Committee (CMSMC), had fixed the Market Sharing Quota (MSQ) at 46 million hectolitres for the 1989-90 dairy year (1 August-31 July), which was 3 per cent less than in the previous year at 47.4 million hectolitres. This cut was made necessary as a result of a significant decline in domestic requirements over the first five months of the current dairy year. Demand for processed dairy products, particularly butter, had continued to decline, and for butter it had declined by 4 per cent. Industrial milk production in the August-January period was 6.6 per cent below year-earlier levels. Total industrial milk and cream production for the 1989-90 dairy year was forecast to be 46.9 million hectolitres, about 2 per cent above the current MSQ, but almost 40 per cent lower than in the previous dairy year.

86. Butter production in the current dairy year was expected to be approximately 5 per cent lower than that in the previous year in response to quota cuts caused by declining consumer demand. Domestic disappearance in the current dairy year was expected to be 2 per cent lower than that in the previous year.

87. Skimmed milk powder production was expected to fall by 7 per cent in the current dairy year. Ending stocks should decrease and domestic disappearance might increase by 8 per cent. The Canadian Dairy Commission would continue its Animal Feed Assistance Program, which offered animal feed manufacturers the opportunity to obtain the surplus skimmed milk powder. In the previous dairy year, this programme used 11.3 million kgs., which was about 20 per cent of total domestic disappearance. Demand for skimmed milk powder under the programme, for the first five months of the current dairy year, was almost 9 per cent higher than that for the same period of last year.

88. Production of Cheddar cheese was forecast to increase by 1 per cent over last year's level and specialty cheese production would increase by about 0.5 per cent. Domestic disappearance for both Cheddar and specialty cheese was expected to increase by 1-2 per cent over the 1988-89 dairy year, while stocks would fall marginally.

89. Ice-cream consumption was expected to remain unchanged, while consumption of yogurt would continue to increase.

90. A Dairy Policy Task Force established last year by the Minister of Agriculture was developing options for a new price-setting mechanism at arms' length from the government that could be used to better balance the interests of producers, processors and consumers. This Task Force would also advise the Minister on other dairy issues and on options for a new long-term dairy policy which would be implemented in August 1991.

91. Replying to a question raised earlier regarding Canada's sale of butter to Algeria, the Canadian delegate confirmed that the Canadian Dairy Commission did make a sale of 2,000 metric tons to Algeria recently at a net price of US\$1,380 per ton c.i.f., which would yield an f.o.b. price somewhat below the minimum price of US\$1,350, which was agreed by members of the International Dairy Arrangement in September last year. The aforementioned "net price" was the result of certain negotiations on this sale in relation to adjustments of freight charges on a previous shipment of dairy products. His own understanding was that the f.o.b. price for butter shipped under this transaction was above the IDA minimum, but appeared smaller after deducting the freight credit in settlement of the claim relating to the earlier shipment. He further wanted to make it clear that the Canadian Milk Supply Management Committee did not anticipate any increase in Canadian butter exports in spite of the surplus achieved in domestic butter production. He also categorically stated that Canada had undertaken to adhere to the International Dairy Arrangement's minimum prices, intended to continue to do so, and would continue to manage Canadian milk supply in a responsible manner.

Economic Commission for Europe

92. The observer from the Economic Commission for Europe informed the Committees that cow numbers in the USSR continued to decline and in April 1990 stood at 28.1 million or 1.1 per cent less than in the same period last year. Global milk output and deliveries went up by about 3 per

cent during the first quarter of 1990 and the rise was expected to continue at the same rate as over the last year, provided the good pasture and feeding conditions continued.

93. Butter production during the first quarter went up by about 8 per cent and margarine output increased by 4 per cent. Efforts were being made to increase the production of margarine in 1991 and to improve the quality and variety of products. The annual production of margarine in the USSR was around 1.5 million tons, making it the second largest producer of margarine in the world after the United States. An additional twenty production units had been purchased from foreign firms for the manufacture of spreadable varieties of margarine, with the aim of improving the consumption of this product. These production plants were expected to be operative by the beginning of next year, producing high value edible fats, including dietetic products, up to 350,000 tons a year.

94. Cheese output during the first quarter of 1990 increased by 0.1 per cent, while whole milk powder increased by 2 per cent.

95. USSR imports of vegetable fats in the first quarter rose by 17 per cent; while butter imports declined by about 13 per cent.

Dates of the next session

96. The next sessions of the Committees shall be held consecutively on 17-18 September 1990, subject to confirmation by the secretariat. The Committees shall meet in joint session, but separate meetings could be held in the order of Milk Powders, Milk Fat and Cheeses, if it were deemed necessary. These meetings shall be followed by the meeting of the International Dairy Council on 19 September 1990.

Report to the Council

97. In pursuance of Article VII:2(a) of the Arrangement and Rule 22 of the Rules of Procedure, the Committees adopted their report to the Council on their forty-second sessions, held on 18 and 19 June 1990. This report has been circulated in document DPC/PTL/11.