GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

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Special Distribution

International Dairy Arrangement

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

## Report of the Forty-Fourth Session

## 10, 11 and 12 December 1990

### Introduction

1. The three Protocol Committees held a joint session on 10, 11 and 12 December 1990, to discuss matters relating to the operation of the three Protocols.

### Adoption of the agenda

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

A. Adoption of report on the forty-third session

B. Information required by the Committee:

(i) Replies to questionnaires (respectively

Questionnaire 3: Certain cheeses
Questionnaire 1: Certain milk powders and
Questionnaire 2: Milk fat)

C. Transactions other than normal commercial transactions

D. Sales under derogation

E. Review of the market situation for products covered by the three Protocols

F. Adoption of report to the Council

G. Other business

### Adoption of report on the forty-third session

3. The report of the forty-third session was adopted as amended and distributed in document DPC/PTL/14.

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 third quarter of 1990 to do so without further delay. They were also requested to provide all the relevant information concerning the fourth quarter by 15 March 1991, 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 cheeses, milk powders and milk fat, and issued respectively in documents DPC/PTL/W/28, DPC/PTL/W/26 and DPC/PTL/W/27. The Committees were informed that these figures would be further updated as soon as more recent information was available.

(c) Other information

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

Transactions other than normal commercial transactions

7. The representative of the EC informed the Committees about such transactions involving butter (7,500 tons), anhydrous milk fat (2,200 tons) and skimmed milk powder (12,200 tons) provided by Germany as part of an emergency aid programme to the USSR. An assurance was given that these transactions were in conformity with the provisions of Article V of the Arrangement and the FAO "Principles of Surplus Disposal and Consultative Obligations". The Committees noted that an appropriate notification would soon be made by the EC.

8. One participant drew attention of the Committees to rumours that such food aid, especially that in the form of skimmed milk powder, had been offered for sale on the world market. It was, therefore, stressed that guarantees should be obtained from the USSR that the aid was used strictly for domestic consumption. The representative of the EC reassured the participants that this particular transaction would not conflict with normal commercial transactions.

Sales under derogations

9. The Committee of the Protocol Regarding Certain Cheeses took note of the additional information furnished by Australia regarding its exports of 390 tons of low quality cheese to different countries in Europe. A total of 1,000 tons was expected to be sold this year under Article 7:2 of this Protocol (DPC/PTL/W/25). The Committee also noted that details of these disposals would soon be notified to participants by Australia.

10. The Committee of the Protocol Regarding Certain Milk Powders also took note of Poland's intended sales of 4,177 tons of skimmed milk powder, mainly to Holland, Denmark, France and Japan at prices between US$700 and US$850 per ton, f.o.b., in accordance with Article 3:5 of the Protocol. In this connection, it was reiterated that the importing countries would take necessary steps to ensure that these imports would not be used for human consumption purposes. The Committee also took note of the assurance provided by Poland that as a result of these sales the surplus dairy stocks of Poland would come to an end.

11. The Committee of the Protocol Regarding Certain Milk Powders noted with some concern the difficulties encountered by South Africa in observing the minimum export price for skimmed milk powder. In this connection, it was, however, noted that some sales below the minimum price had been carried out by some private operators and that the Government had taken steps in the form of export licensing procedures to ensure that future exports would conform with South African commitments as a member of the Arrangement. Furthermore, South Africa would inform the IDA in writing of details of recent exports as soon as possible.

12. The representative of Australia proposed that in a situation with prices frequently quoted close to the agreed minimum export prices, it would be desirable to have information on how participants were ensuring observance of the agreed prices. Certain delegations considered this request redundant since by signing the Arrangement in 1979 participants adopted the necessary provisions for the observance of minimum prices. In this context, the Chairman suggested that at the next meeting delegates might be prepared to explain the measures in force in their respective countries, and notably any changes made in relevant regulations.

13. In the Committee of the Protocol Regarding Milk Fat, concerns were reiterated as to the extremely difficult market situation for milk fat, notably butter. In light of the situation and the facts presented, the Committee adopted the following Decision pursuant to Article 7:1 of the Protocol:

> "At its meeting on 10, 11 and 12 December 1990, the Committee of the Protocol Regarding Milk Fat examined developments on the international butter market and in particular the situation with respect to imports into the USSR. It noted that economic changes in that country were disrupting the established channels for food procurement and distribution and that an emergency situation had developed with an urgent requirement for imports of food, including butter, on special terms.
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> In light of the situation and the facts presented to the Committee by a number of participants, the Committee, acting in conformity with Article 7:1 of the Protocol, decided as an exceptional arrangement that:
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> (i) the provisions of Article 3 with respect to the minimum export price for butter shall not apply to exports to the USSR up to a maximum quantity of 200,000 metric tons per participant, for butter exclusively for consumption in that country, covered by sales contracts concluded before 15 January 1991; provided that

(ii) deliveries of butter to the USSR under such contracts are completed by 30 September 1991, and provided that if any participant is unable to complete scheduled deliveries by this date because of the inability of the USSR to take receipt of the deliveries, the scheduled uncompleted deliveries may be completed during the period 1 October-31 December 1991.

The Committee determined that information on butter supplied to the USSR in terms of this Decision be supplied to the Committee through the secretariat within ten days of contractual commitments being made. This information should include, in particular, quantities and scheduled delivery periods.

In the event a member has concerns that sales of butter under this derogation are not being consumed within the USSR and that they may be disrupting other normal commercial transactions, a special session shall be convened to consider the situation. Among the options for resolving the problem could be suspension of the derogation and remaining shipments contracted thereunder."

14. The full text of the above Decision is contained in document DPC/PTL/16, dated 12 December 1990.

Review of the market situation for products covered by the Protocols

Japan

15. Following a hot summer, the growth rate of milk production continued to slow during the third quarter of 1990. Thus, for the first time since October 1987, milk production in August 1990 was lower than in August of the previous year. This trend continued during September. Demand for fresh milk for drinking, which accounted for 62.9 per cent of total production in the period April to September 1990, began to pick up from May onwards, albeit at a moderate pace. In September, the increase was of the order of 2.6 per cent.

16. Skimmed milk powder production decreased by 11.6 per cent during the third quarter of 1990 as compared to the same period last year. The decline was cuased by the slowdown in milk production and the strong demand for fresh milk for drinking. Imports during the second and third quarters amounted to 38,000 tons, a decline of 19.1 per cent compared to the correponding period in 1989. Import prices during the period from April to September 1990 for skimmed milk powder for animal feed purposes increased by 5.2 per cent compared to the corresponding period of 1989. In contrast, the prices of powder for human consumption dropped by 11.5 per cent.

17. Butter production fell by 16.7 per cent in the third quarter, for the same reasons as caused the drop in skimmed milk powder production. However, unlike the latter, for which production outstrips demand, the butter market situation continued to show signs of firming. Accordingly, the Government of Japan decided to import 1,000 tons of butter in October. Imports in the period from April to September 1990 amounted to 1,500 tons,

a quarter of the amount imported during the same period in the previous year. Import prices in the second and third quarters of 1990 dropped by 4.9 per cent in relation to the corresponding period of 1989.

18. Cheese production decreased by 3.8 per cent during the third quarter of 1990 as compared to the same period of the previous year. Imports during the six months from April to September totalled 52,300 tons, of which natural cheeses were 51,700 tons (a decrease of 2.1 per cent) and processed cheeses were 641 tons (5.7 times higher than in the corresponding period of 1989). Import prices of natural cheeses during the second and third quarters of 1990 remained high (13.8 per cent above the corresponding period of 1989). Import prices of processed cheese declined slightly during this period (1.8 per cent).

19. The spokesman for the EC recalled that at earlier sessions the Committees had noted a decline in demand throughout virtually all the world market. According to the inforamtion supplied by Japan, in that country per capita consumption of dairy products was among the lowest in the world and demand was still falling. In recent weeks, however, the major Japanese daily newspapers had on three occasions published advertisements paid for by the Japan Dairy Council which called into question, without any justification, the quality and healthiness of dairy products imported into Japan. A large amount of money had been put into buying advertising space (nearly 250 million yen) so as to reach some 30 million households, with the clear intention of harming the image of imported dairy products. The Japan Dairy Council is supported by the Ministry of Agriculture, and some senior Ministry officials occupying very high posts in the Japanese agricultural co-operative movement were very strongly supporting this campaign. As one of the main dairy producers, the Community was extremely vigilant as to the quality of raising, production and processing conditions. The controls established by Community veterinary services on herds and production units were particularly strict and ensured that products were perfectly healthy. In his delegation's view, there was every reason to suppose that if the Japanese market were genuinely opened, that would give a considerable boost to demand from consumers concerned to achieve a better daily nutritional balance. However, the policy currently followed by the Japan Dairy Council was seriously limiting the development of consumption, which was already particularly low. The Community considered this a very serious problem.

20. The representative of Japan said that unfortunately he had not read the advertisement in question. He pointed out nevertheless that Japanese consumers were very concerned about the healthiness of imported products. In addition, while cheese demand had declined, it seemed to be picking up and was expected to firm during the second half of 1990. Cheese imports were tending to rise since July 1990 following the stabilization of market prices.

New Zealand

21. The picture of the world dairy market was a mixed one; with the cheese market stable and improving, a balanced market for powders with prices firming and with the world butter market remaining a problem area

which was even worsening. The Community production of milk for 1990 seemed to be reasonably in line with quotas, and supplies from Eastern Europe were on balance, covering winter support requirements. United States dairy stocks were at the same time low. Good pasture conditions in New Zealand were expected to result in an increase of 3 to 5 per cent in milk production, which for 1990 was expected to amount to 7.40 million metric tons, compared to 7.70 and 7 million tons in 1988 and 1989, respectively.

22. The cheese market was on the whole in a satisfactory state, with production being stable in major producing areas and stocks remaining low. Except for certain types of Cheddar, which were facing some difficulty in the United Kingdom market, cheese prices were lifting or firming slightly, although unspectacularly.

23. For powders, there was an improvement in the situation in the Community and significantly less supplies coming from Eastern European countries. United States stocks of milk powder remained at historically low levels. On the demand side the loss of the markets in Iraq and Kuwait of 50 thousand metric tons of powder was regrettable. However, this was largely compensated by strong growth in import demand by Latin American countries, such as Mexico, Peru and Venezuela and by South East Asian countries. There had been a net effect on prices which for whole milk powder had risen to US$1,425 to US$1,475 per metric ton f.o.b. compared to US$1,300, three months earlier. Prices for skimmed milk powder were actually in the range of US$1,450 to US$1,500 per metric ton f.o.b. compared to US$1,300 in August. The simultaneous depreciation of the US dollar might however have overstated the increase in prices.

24. It was now a question as to who was going to buy butter and the market situation was a rather desperate one. As an example it was mentioned that for European countries, declining consumption of butter entailed growing and persistent surplus problems notwithstanding stable milk supplies. United States butter stocks were however low. In 1990, world butter production had continued to grow at the same rate as in 1989.

25. The USSR was of enormous importance to the world butter market and for its balance, accounting for more than 60 per cent and becoming more important than the United Kingdom market. The USSR was taking nearly one third of New Zealand butter production and was by far the largest outlet for the clearance of Community stocks.

26. It was difficult to provide more specific figures on stocks for butter and other products beyond what was provided in the replies to the questionnaires. Figures for September might be a little misleading and not truly indicate the supply position as production of butter and other products was heavily concentrated in the period October to December.

27. During the period in review, very little sales of butter had been made and only little butter had been shipped to the United Kingdom as most of the quota for that market had been filled earlier in the year. Consequently, stocks had increased lately and New Zealand could experience very heavy stocks towards the end of the current season.

28. The export prices quoted by the Community were found to be interesting and it was acknowledged that Community prices had been firming in recent weeks, although this seemed to primarily be a result of a weakened US dollar, which had weakened significantly against Community currencies. Although it remained to be seen prices quoted at that level, it was admitted that prices might be moving in that direction. Prices quoted presently for butter were merely theoretical as very little business had taken place lately. Prices had been firming up because of developments in exchange rates and it was important to distinguish between where prices might go and exactly where prices had been for actual business having been transacted.

29. The New Zealand representative offered the following ranges of prices quoted recently, per metric ton f.o.b.: Butter US$1,350 to US$1,500; anhydrous milk fat US$1,625 to US$1,725; skimmed milk powder US$1,425 to US$1,475; whole milk powder US$1,450 to US$1,500; and, cheese US$1,550 to US$1,650.

Poland

30. The representative of Poland reconfirmed that export licensing was now applied to exports of all dairy products under a law passed by the Government on 7 November 1990. The Administration was now able to supervise exporters in their adherence to the minimum export prices agreed under the International Dairy Arrangement.

31. Data concerning production, imports, exports and consumption of major dairy products during the first three quarters of 1990, had been provided in their reply to Questionnaires 1 to 3. The current situation was characterized by a significant decline of the order of 13 to 15 per cent, in output and purchases of milk, and this downward trend was likely to persist for some more time. This was a result of a combination of factors, such as the normal seasonal decline of autumn and winter and a decrease in the profitability of milk production as a result of the abolition of all subsidies.

32. Following these developments, the butter stocks had been completely wiped out and it was expected that Poland would have to import some 5,000-10,000 tons of butter during the first quarter of 1991. As regards the stocks of skimmed milk powder, amounting to 5-6 thousand tons, the expectation was that these will also soon be sold out and future requirements could only be met from the current production. Further sales of skimmed milk powder would be available only for human consumption purposes at the GATT minimum prices. With regard to cheeses, the situation was stable. Both output and consumption had remained stable and this trend was expected to continue in the near future. Only small quantities were exported at prices higher than the GATT minimum export prices.

South Africa

33. While agricultural producers in South Africa continued to suffer from a heavy debt burden, the cash flow opportunities of dairy production led to sustained growth in the production of milk. During the period July 1989 to

June 1990, there was a 4.2 per cent increase which was higher than the population growth rate, and resulted in a surplus of 4.8 per cent over actual consumption.

34. Milk production in the third quarter of 1990 was 505,187 tons and was expected to reach a level of 532,256 tons in the fourth quarter. Milk consumption was expected to decrease from 511,623 tons in the third quarter to 469,038 tons in the fourth quarter of 1990.

35. South Africa was an irregular exporter of dairy products. In 1990, it found it difficult to sell at the IDA minimum prices and as a result the stocks soared to uncomfortably high levels.

36. Production of Gouda and Cheddar cheese was expected to total 11,300 tons in the fourth quarter of 1990. Consumption of cheese was estimated at 10,846 tons. Stocks at the end of December 1990 were likely to reach a level of 9,700 tons.

37. Skimmed milk powder was one of the balancing products in the industry. During the second and third quarters, a total quantity of 1,400 tons was exported and another 6,000 tons were expected to be exported in the fourth quarter of 1990. Stocks were likely to be 7,900 tons at the end of December 1990.

38. The production of whole milk powder in the third quarter at 1,956 tons was likely to increase to 2,900 tons in the fourth quarter of 1990. Consumption in the third quarter was 2,708 tons and was expected to decrease to 2,002 tons in the fourth quarter. Exports for the third quarter at 295 tons were likely to be reduced to 200 tons for the fourth quarter. Stocks at the end of December 1990 would be around 1,374 tons.

39. Butter production in the third quarter of 1990 at 5,402 tons, resulted in a high level of stocks of more than 6,000 tons at the end of September. Some exports of butter were expected to be carried out in the latter part of the fourth quarter or in early 1991.

Finland

40. In Finland, milk deliveries during the first three quarters of 1990 were 3.7 per cent higher than in the corresponding period of last year, due mainly to higher yields per cow as a result of an exceptionally good harvest year. Estimates for the whole of 1990 indicate that milk deliveries would reach a level of 2,590 million litres, giving an increase of 1.7 per cent compared with last year. In 1991, milk deliveries were expected to decrease by 11 per cent because of the measures taken to reduce production under the milk bonus scheme.

41. As regards cheese, the production increased by 3.9 per cent as compared to the level in the same period of last year. Estimates for the whole of 1990 indicated a level of 93,000 tons, showing an increase of 2.7 per cent over the previous year. Consumption continued to increase at a rate of 5.4 per cent per annum. A total of 20,700 tons of cheese

(Emmental) had been exported in the first three quarters, at an average price of US$3,570 per ton f.o.b. Stocks, at the end of September, totalled 14,900 tons.

42. The production of skimmed milk powder decreased by 16 per cent during the first nine months of the year. Stocks at the end of September were 15,000 tons. About 3,100 tons were exported during the first nine months at an average price of US$1,760 per ton f.o.b.

43. The production of whole milk powder increased to 19,000 tons during the January-September period. This was 37 per cent more than two years ago. In 1989, the production was exceptionally low. About 19,900 tons had been exported during this period at an average price of US$1,510 per ton f.o.b. Stocks at the end of June were 2,000 tons.

44. Butter production in the first nine months was about 2 per cent higher than in the same period of last year. Estimates for the entire year of 1990 indicate that production would remain unchanged at the level of 62,000 tons. Consumption of butter fell by 9 per cent during this period and was expected to show a decline of 13 per cent for the whole year. About 24,800 tons had been exported at an average price of US$1,554 per ton f.o.b. Stocks at the end of September amounted to 13,930 tons.

Norway

45. Milk deliveries in the first three quarters of 1990 were at the same level as last year. By the end of the year, deliveries were expected to be of the order of 1,847 million litres, which would be slightly less than the level in 1989. Reductions in milk quotas and a tightening of the two-price system were expected to squeeze supplies so that milk deliveries next year would be reduced by 4 per cent.

46. Cheese output during the first three quarters of 1990 was 4 per cent higher than in the same period last year, but it was expected to drop in the fourth quarter so that the level for 1990 would be the same as in 1989. Consumption was slightly lower than last year, but was expected to pick up towards the end of 1990 so as to equal the level of 1989. Imports were higher in the first three quarters, but the total for 1990 would be the same as last year. Exports so far were also higher and were expected to be slightly more than last year.

47. The market situation for skimmed milk powder was stable. A limited quantity was exported during the first half of 1990, but no further exports were expected for the rest of the year. There were no imports either.

48. Butter production was down by 10 per cent in the first three quarters of 1990, but this decline was expected to level off somewhat so that the total for 1990 would be only 5 per cent below the level of last year. Consumption was also 8 per cent lower than last year, but it had steadily picked up in the past few months. About 9,483 tons of butter had been exported this year, of which 2,200 tons went to Poland through a trader. The same level of exports was expected to be maintained next year also.

Sweden

49. In Sweden, the consumption of liquid milk decreased by 3.4 per cent during the first ten months of 1990 as compared to its level in the corresponding period of last year. Total milk deliveries were expected to increase from 3.42 million tons in 1989 to 3.49 million tons in 1990.

50. Production of cheese remained stable during the third quarter of 1990, but imports and consumption increased somewhat. Imports of hard cheeses increased by nearly 17 per cent during the first three quarters of 1990, while those of blue-veined cheese increased by 27 per cent and mould cheeses only slightly. Production of all cheese was expected to increase by 12 per cent in 1990. Imports and consumption were expected to increase significantly, but exports were likely to drop.

51. As regards skimmed milk powder, production was down from 7,600 tons in the third quarter of 1989 to 6,700 tons in the third quarter of 1990. Exports were significantly up, due to a recovery in the world market situation. As a result of the abolition of the remaining consumer subsidies, a price increase was expected next year. The domestic buyers were in anticipation building up their own stocks. This, together with the export recovery, had led to a significant reduction in stocks. Some recovery in stocks was, however, expected in the spring of 1990. The forecast was that the overall situation for skimmed milk powder would improve in 1990. Average export price was reckoned at US$1,350/ton f.o.b.

52. Butter production, in the third quarter of 1990, totalled 8,700 tons, i.e. 800 tons more than in the same period of last year. Exports increased from 3,700 to 6,500 tons, but consumption remained stable more or less at the level of last year. The forecast was that both production and exports would increase during 1990. The consumer shift towards vegetable fats was expected to continue, thus influencing the demand for butter. It was noteworthy that Swedish exporters had more recently been fairly successful in exporting a part of the surplus stocks of butter.

Switzerland

53. According to provisional figures, milk deliveries until the end of October 1990 totalled 2,524 million tons, as against 2,605 million tons in the previous year, a drop of 3.1 per cent. For the milk year running from 1 November 1989 to 31 October 1990, deliveries totalled 2.99 million tons compared to 3,058 million tons in 1989/90, a decline of 2.22 per cent.

54. Cheese production remained stable during the first nine months of the year at about 99,300 tons. Imports increased by 5 per cent and exports rose marginally (0.2 per cent). Cheese consumption remained more or less stable at 72,500 tons compared to 72,600 tons over the first nine months of 1989. Stocks also remained stable at 22,400 tons at 30 September 1990 compared to 22,500 tons a year earlier.

55. Switzerland intended to export about 1,000 tons of whole milk powder to the USSR as food aid, in two 500-tons shipments. In addition, Switzerland had just sent 70 tons of skimmed milk powder to the USSR as food aid.

56. Butter production declined by 2.4 per cent, from 30,584 tons to 29,861 tons, during the first nine months of 1990. During that period, imports rose by 37.8 per cent to reach 1,272 tons. Butter consumption increased by 1.1 per cent from 30,654 tons during the first nine months of 1989 to 30,995 tons during the first nine months of 1990. Stocks remained relatively stable at about 5,000 tons at 30 September 1990.

Bulgaria

57. According to the preliminary data available for the third quarter of 1990, cheese output was 32,700 tons, which compared unfavourably with the levels during the same period in 1988 and 1989. It was likely to drop further in the fourth quarter due to the existing economic crisis in Bulgaria. Exports of cheese during the third quarter fell by 400 tons in comparison with 1989 to a level of 5,600 tons, mainly going to the USSR, Cuba, the United States and Australia. The annual figures for cheese exports would most probably show a more pronounced decline due to severe shortages on the domestic market. There were no imports of cheese during the third quarter.

58. Butter production during the third quarter of 1990 at 5,000 tons was around the levels of the previous two years. While imports totalled 500 tons in the third quarter, there were no exports. Imports for the whole of 1990 were expected to be lower than in 1988 and 1989.

Australia

59. Forecast at 6.30 million litres, Australian milk production in 1990/91 would be at the same level as in the previous year. Cheese production, which in the September quarter had been 6.2 per cent lower than in the same period of 1988/89, had recovered lately and production for the December quarter would be more in line with that of a year earlier. Producers had been encouraged by slightly better market prospects for whole milk products relative to butter/skimmed milk powder.

60. The world market for cheese seemed to be going through a stable period, although in certain markets there had been a pressure on prices of Cheddar. Excessive Cheddar stocks in the United Kingdom had resulted in a pressure on internal prices and aggressive discounting in that market. The Gulf crisis had adversely affected cheese shipments to Middle East markets, but this was to some extend outweighed by increased demand in other markets in Asia related to increased oil prices.

61. Australian skimmed milk powder and buttermilk powder production in the September quarter of 1990 amounted to 33,750 metric tons, 7 per cent up on that of the same period a year earlier. Increased export refunds by the Community had entailed a slump in the international powder market in July 1990, but since then some recovery of the confidence in the powder market had come about and prices had recovered. Increased internal disposals in the Community had helped quite a bit in this regard, as had various mechanisms implemented by Poland which meant much stronger adherence to the agreed minimum export prices. Further developments would depend on the

effectiveness of the internal disposal of powder in the Community. If further stimulus could be provided in the Community for increased disposal also of butter, that would of course assist the dairy market generally.

62. Stocks of dairy products in Australia were generally in line with those a year earlier, but it was difficult to give precise figures at this point of time as we were right in the middle of the peak period of production. As to market prices, a recent assessment indicated the following: Butter at or slightly above the minimum of US$1,350 per metric ton f.o.b., with only limited trade taking place; anhydrous milk fat at US$1,625 per metric ton f.o.b.; Cheddar cheese around US$1,650 per metric ton f.o.b.; skimmed milk powder US$1,300 to US$1,400 per metric ton f.o.b. and whole milk powder US$1,350 to US$1,450 per metric ton f.o.b.

European Economic Community

63. Estimates of milk deliveries for calendar year 1990 were 98.8 million tons, showing a marginal increase of 0.2 per cent over 1989. Butter output at 1.75 million tons in 1990 was expected to be 1.9 per cent higher than in the previous year. The production of skimmed milk powder was expected to be 12.4 per cent higher to 1.6 million tons due mainly to a 20 per cent reduction in the casein production which would total 118,000 tons in 1990. The production of whole milk powder would, however, be 6.9 per cent lower at 673,000 tons in 1990. The output of condensed and evaporated milk would decline by 4 per cent to 1.25 million tons. Cheese production would be about 3.1 per cent more in 1990 at a level of 4.98 million tons.

64. Exports in the first nine months of 1990 were down, compared to the same period last year, in almost all products except cheese which had sustained its demand in the international market. Skimmed milk powder exports during this period were 13 per cent lower to a level of 273,000 tons (including food aid); whole milk powder 5.1 lower to a level of 430,000 tons; butter exports were reduced by 53 per cent to 103,000 tons and butter oil exports were higher by 17 per cent to 96,000 tons (including food aid). Cheese exports were 4.5 per cent higher to a level of 323,000 tons.

65. Imports of butter (mainly imports of New Zealand's butter to the United Kingdom's market) showed a very substantial increase and amounted to 62,000 tons in the first three quarters of 1990 compared to 26,000 tons imported in the corresponding period of 1989. Cheese imports in this period decreased slightly to 81,000 tons and were expected to total some 100,000 tons for the year 1990, as a whole.

66. Public stocks of butter and skimmed milk powder were 250,000 tons and 340,000 tons respectively. Public intervention for butter was being maintained by tenders. The intervention for skimmed milk powder had been stopped with effect from 1 September 1990 and would again be taken up from 1 March 1991.

67. In the Eastern part of Germany (the former German Democratic Republic), stocks of skimmed milk powder and butter were nil. Stocks of butter had disappeared after the sale of 77,000 tons to the USSR in

September 1990. Intervention for skimmed milk powder would continue until the end of 1990 but there would be no stocks on that date. The reduction in consumption of dairy products would be more than offset by a rather strong and fast decline of milk production by about 20 per cent.

68. Average export prices on f.o.b. basis, still the highest in the international market, were as below, despite the accusations that Community refunds had been increased:

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|---|---|
| Skimmed milk powder | US$1,540 per ton |
| Whole milk powder | US$1,450 per ton |
| Butter | US$1,500 per ton |
| Butter oil | US$1,880 per ton |
| Cheese (Cheddar) | US$2,000 per ton |

However, according to the information available, only small sales of butter were effected while no sales of butter oil were made. The present situation for powders and cheese could be seen as satisfactory but the market situation for butter and butter oil had worsened.

69. The Community's share of the international market of dairy products, substantially down on average, might decrease from 50 per cent to 40 per cent for 1990. With regard to world milk production in 1990, some increase might be expected with output increasing by 1.2 per cent in the OECD area and by 2 per cent in Eastern Europe and the USSR. This development would have no negative impact in the world market for dairy products but a real improvement was neither expected.

Hungary

70. According to preliminary data, cattle herd numbers in the first three quarters of 1990, continued to show a downward trend. At the end of September the herd stood at 1.61 million head, 2.9 per cent lower than one year before and some 20 per cent down from the 2 million head in the early eighties. Cow numbers with 635 thousand head had also shown a decrease, although somewhat lower (1.6 per cent) than the total cattle herd. Milk production, however, due to the increased yields per cow, was not expected to change substantially and on an annual basis probably would remain around the level of 1989, i.e. 28 million hectolitres.

71. The Hungarian dairy sector had gone through a lot of difficulties during 1990. The summer drought had driven up feed prices, but the substantial fall in domestic demand had caused most difficulties. This year, as part of the market-oriented economic policies, the previously large-scale consumer subsidies were phased out which resulted in major price increases for dairy products. This in turn had cut back consumption substantially, with more than 10 per cent for most dairy products but the case of butter the drop might be over 25 per cent by the end of the year.

72. As regards the individual product groups, the production of milk powders was expected to increase by some 20 per cent on an annual basis, as processing was the only way to utilize surplus milk. The total output of

milk powders was expected to exceed 40 thousand tons in 1990. The bulk of the increase would affect skimmed milk powder for feed purposes, but the production of both whole and skimmed milk powder for human consumption was also expected to grow at a lesser rate.

73. In the first three quarters of the year the exports of skimmed milk powder were estimated to have reached 5.5 thousand tons, some 70 per cent above the level of 1989. In case of whole milk powder the expected export of about 5 thousand tons was also above the level of 3.3 thousand tons in the previous year. Only a small quantity of whole milk powder was imported in 1990. For skimmed milk powder the major markets were Austria and the Netherlands, with smaller quantities going to some other Western European destinations. Some exports were also destined to South Asian countries. In case of whole milk powder, the biggest market this year was Romania, while smaller quantities were sold to a number of Western European countries.

74. The production of butter also increased but to a lesser extent than that of milk powders. In the first half of the year it was only slightly above the 19 thousand tons of 1989 and also on an annual basis an increase of 2-3 per cent was expected. In 1989, total butter production was 37.1 thousand tons. The consumption had decreased considerably, due to both price reasons and changes in consumer preferences. In 1990, there was no import of butter, while exports in the first two quarters of the year amounted to 4.4 thousand tons, some 20 per cent above the level of the previous year. For the first three quarters, sales were expected to total about 7 thousand tons, which represented a higher increase compared to 1989. The major markets were Romania and the USSR with smaller amounts being sold to Western European and Middle-East destinations.

75. The cheese production in the first half of the year increased by some 8 per cent and amounted to 30 thousand tons. On an annual basis a similar increase was foreseen, so the total production would be around 60 thousand tons. The consumption of cheese had also decreased, although to a lesser extent than that of butter, by some 11-13 per cent. There were only small purchases of special cheeses from France and Germany. Cheese exports had run above the level of the previous year. In the first half of 1990 they were above 7 thousand tons, compared to 4.3 thousand tons in 1989 and according to preliminary data there was also an increase in the third quarter of the year, so altogether some 16 thousand tons were exported. The exports were destined to a large number of countries. The major market was Yugoslavia, followed by Austria, the Netherlands, Sweden the United States and Middle-East destinations. The loss of the Kuwaiti market, which was a regular outlet for Hungarian exporters previously, was a major blow.

Uruguay

76. Milk deliveries remained relatively stable during the first nine months of 1990 compared with the corresponding period of 1989.

77. Cheese exports were tending to rise, still primarily towards neighbouring countries. However, Uruguay had to face a number of problems due to heavily subsidized exports of cheese to some of its traditional markets. Production of skimmed milk powder was tending to decline.

78. The butter situation was worrying. Following the drop in consumption and exports, stocks had risen. Prices well below the Uruguayan price had been offered, which had disrupted regular trade flows and shut Uruguay out from the market.

Canada

79. The observer from Canada said that during the 1990/91 dairy year (1 August-31 July) a further cut in market sharing quota (MSQ) was possible due to declining butter consumption in domestic market and increased "skim-off" of butterfat from fluid milk and cheese markets. Current industrial milk forecast for the 1990/91 dairy year was 45.5 million hectolitres, as against 47 million hectolitres in 1989/90 and 47.76 million hectolitres in 1988/89. Production of skimmed milk powder in 1990/91 was expected to be 81,000 tons as against 93,000 tons estimated earlier. Production of butter was expected to decline by 6 per cent to a level of 93,000 tons in 1999/91. Cheese output was, however, forecast to increase by 3 per cent and 5 per cent respectively of Cheddar and other cheeses in 1990/91.

80. As regards exports of skimmed milk powder, which was the major dairy export product, a total of 35,000 tons was now expected as against 40,000 tons anticipated earlier. Domestic consumption of butter had continued to decline steadily.

Economic Commission for Europe

81. The observer from the Economic Commission for Europe informed that milk production in the USSR, which had continued to increase during the first half of 1990, had slowed down in the second half of the year and would thus show an increase of 1 per cent only for the whole of 1990. This modest increase was partly due to precarious feed production which was considerably lower than a year earlier.

82. Butter production during the first nine months of 1990 was up by 3 per cent; while margarine output declined by about 4 per cent

83. Cheese output was also lower by about 0.4 per cent during this period.

F. Adoption of report to the Council

84. Pursuant to Article VII:2(a) of the Arrangement and in accordance with Rule 22 of the Rules of Procedure, the Committees adopted their report to the Council. This was distributed in document DPC/PTL/15.

G. Other business

Date of next meeting

85. The next sessions of the Committees will be held on 18-19 March 1991, subject to confirmation by the secretariat. The Committees will again meet in joint session, but separate meetings could be held in the order of Milk Fat, Cheeses and Milk Powders, if it was deemed necessary.

86. The representative of Uruguay extended an invitation to the International Dairy Products Council and its three Protocol Committees to hold their next regular sessions in March 1991 in Uruguay. The representative of Argentina also took the opportunity to invite the participants to visit at the same time dairy farms in Argentina while they were in neighbouring Uruguay. There was no objection to these proposals by any participant. The Committees noted the invitations and expressed their appreciation to the representatives of these two countries.