

**GENERAL AGREEMENT ON  
TARIFFS AND TRADE**

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Special Distribution

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International Dairy Arrangement

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

Report of the Forty-Fifth Session

18-19 March 1991

Introduction

1. The three Protocol Committees held a joint session on 18-19 March 1991, 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. Election of Chairman and Vice-Chairman
  - B. Adoption of report on the forty-fourth session
  - C. 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
  - D. Transactions other than normal commercial transactions
  - E. Sales under derogation
  - F. Review of the market situation for products covered by the Protocol
  - G. Oral report to the Council
  - H. Other business

Election of Chairman and Vice-Chairman

3. In accordance with Rule 15 of the Rules of Procedure, the Committees elected Mr. Miles Jordana (Australia) as Chairman for 1991/92; while no Vice-Chairman was elected. Tributes were paid to the out-going Chairman Mr. Lillerud (Norway), for the excellent work done during his tenure of this office.

Adoption of reports on the forty-fourth session

4. The report of the forty-fourth session was adopted as amended and distributed in document DPC/PTL/17.

information required by the Committees

(a) Replies to Questionnaires 1 to 3

5. The Committees reviewed the replies to Questionnaires 1 to 3 and requested participants who had not yet submitted such information in respect of the fourth quarter of 1990 to do so without further delay. They were also requested to provide all the relevant information concerning the first quarter of 1991 by 14 June 1991, at the latest.

(b) Summary tables

6. 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, cheeses, skimmed milk powder and whole milk powder, and issued respectively in documents DPC/PTL/W/37, DPC/PTL/W/38 and DPC/PTL/W/39. The Committees were informed that these figures would be further updated as soon as more recent information was available.

(c) Other information

7. 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 fourth quarter of 1990 and also gave forecasts for the first quarter of 1991 and the whole of 1991.

Transactions other than normal commercial transactions

8. The Committees took note of the fact that no transactions, other than normal commercial transactions, had taken place during the fourth quarter of 1990.

Sales under derogations

9. The Committee of the Protocol Regarding Milk Fat noted that four exporting countries - New Zealand, the European Community, Australia and Finland had contracted to sell respectively 100,000 tons, 200,000 tons, 4,000 tons and 7,000 tons of butter to the USSR in accordance with the Decision of 12 December 1990 (DPC/PTL/16). Details in respect of export

prices and delivery dates had been provided in DPC/PTL/W/43. In view of the present difficult economic situation in the Soviet Union, the exporting countries were, however, not certain what quantities would ultimately be shipped by the end of 1991. More information regarding the actual deliveries would be provided at the next meeting of the Committee in June 1991.

10. The Committee of the Protocol Regarding Certain Milk Powders took note of the communications notified by Poland regarding sales totalling 2,842 tons of skimmed milk powder for purposes of animal feed at below the minimum export price under Article 3:5 of the Protocol (DPC/PTL/W/32, 33, 36, 41 and 42). It also took note of the Register of Sales made in accordance with that provision (DPC/PTL/W/40). It was observed that a note included in an earlier notification (DPC/PTL/W/29) was not correct with respect to exports to certain destinations. The Committee noted that exports of skimmed milk powder and buttermilk powder for animal feed purposes at prices below the agreed minimum prices could only take place where processes and control measures were applied in the country of export or destination so as to ensure that the powder was exclusively used for feed. The relevant processes and control measures would be approved by the Committee and recorded in the register annexed to the Protocol. At present only one participant, Japan, had such measures applying to imports.

11. The existing arrangements in Poland to issue the export licence only after the importer had given the necessary guarantee to use the imported skimmed milk powder for animal feed purposes were not enough. An appeal was therefore made to participants to observe closely their obligations with respect to exports of feed powder in the future. A request was made to Poland and other participants exporting feed powders to provide more details of their transactions and in particular notify processes and control measures intended to be applied for approval and recording by the Committee. It was suggested that if participants were unable to observe these obligations, surpluses should preferably be disposed of internally.

12. The Committee agreed to revert to the matter at its next regular meeting, and participants were invited to prepare themselves for further consideration of the problem.

13. In reply to a question by the representative of the European Community as to the nature of procedures and control measures recorded in the Arrangement regarding skimmed milk powder for non-human consumption, the observer from Canada confirmed that those processes and control measures related to exports. He provided the following detailed description of those measures in his country. The skimmed milk powder used in animal feeds produced and sold domestically was treated so that it had a distinctive and disagreeable odour unpalatable to humans. Inspectors from Agriculture Canada must be present when the bags of skimmed milk powder were injected with anise oil according to procedures set out in the regulations of the Canadian Dairy Commission. Furthermore, all imports of animal feed containing 50/50 per cent or more of skimmed milk powder must be accompanied by an import permit. Requests for such permits were handled on a case-by-case basis. Thus, while no formal conditions for denaturing

were set out, the system could accommodate such requirements if deemed necessary. However, no such permits had been issued in the past few years. In regard to exports, the Canadian Dairy Commission advised that there had been no recent exports of animal feed quality skimmed milk powder. In past years, when such exports were made, denaturing processes were registered with the International Dairy Arrangement. Currently, all Canadian exports of skimmed milk powder were for human consumption.

Review of the market situation for products covered by the Protocol

Switzerland

14. In Switzerland, milk deliveries from 1 November 1989 to the end of October 1990, aggregated 2.99 million tons, showing a decrease of 2.2 per cent over the same period last year. During the calendar year 1990, deliveries totalled 2.97 million tons, as against 3.07 million tons in the previous year, showing a drop of 3.4 per cent.

15. Butter output fell by 3.9 per cent in 1990, from 33,100 tons to 31,800 tons. Imports rose by as much as 40 per cent in 1990 to reach 4,200 tons. However, imports in 1989 were relatively low at 3,000 tons, being 7,900 tons in 1988. Butter consumption increased by 0.6 per cent in 1990, from 36,200 tons to 36,400 tons. Stocks remained relatively stable at 4,500 tons on 31 December 1990, compared to 4,900 tons in the beginning of the year.

16. Cheese production registered a slight decline of 0.5 per cent in 1990 totalling 129,800 tons. Imports increased by 5.3 per cent to 25,900 tons and exports dropped by 3.9 per cent to a level of 61,400 tons. Cheese consumption continued to increase at a rate of 1.5 per cent per annum, to reach 93,300 tons compared to 91,900 tons in 1989. Stocks at 23,000 tons on 31 December 1990 were considered to be normal.

Sweden

17. In Sweden, milk deliveries were expected to decrease from 3.43 million tons in 1990 to 3.20 million tons in 1991. Cow numbers, registered in 1978 at 650,000 head, began to decline from 1982 onwards and in June 1990 were estimated at 555,000 head. A further decline to 500,000 head was anticipated as a result of the on-going agricultural reforms in Sweden. Average yield per cow had increased from 4,000 kgs. per year to 6,500 kgs. per year between 1960 and 1990, giving an annual average increase of 100 kgs. per cow per year. It was expected that the yields would further increase as a result of rationalization and improvement in dairy structure.

18. Regarding different products, the production of skimmed milk powder during 1990 increased somewhat, while consumption remained unchanged. Imports as well as exports almost doubled, compared to the levels last year. Stocks came down to a level of 9,000 tons at the end of 1990. Production was expected to fall significantly in 1991, and exports were likely to suffer a decline due to the new restrictive collective export financing rules. Average export price in the earlier months of 1991 was reckoned at US\$1,340/ton f.o.b.

19. Butter output during 1990 increased by 6,000 tons to a figure of 49,200 tons. However, due to a fall in domestic consumption as a result of a change in consumer preference for light products, more quantities were diverted into exports. Average export price for butter in March was registered at US\$1,350/ton f.o.b. Forecasts for 1991 showed that both production and exports of butter would decline.

20. While production of cheese somewhat decreased, both consumption and imports increased compared to the levels of last year. Exports remained stable at a level of 4,000 tons, but were expected to decline in 1991 as a result of the new agricultural policy. Both imports and consumption of cheese were, however, likely to increase in 1991.

Norway

21. The year 1990 began with a sharp increase in milk production. This rise in production was, however, quickly brought under control by a tightening of the two-price system for milk. Thus, total domestic milk deliveries in Norway during 1990 reached 1,837 million litres, which represented only a 0.1 per cent increase compared to 1989. The changes in the two-price system were expected to continue to affect production this year, reducing total milk production for 1991 by 4 per cent.

22. Production of butter dropped by 10 per cent in 1990 to 20,000 tons. This decline was caused by an increased use of butteroils for industrial purposes, a stronger demand for whole milk than was expected, as well as a conscious effort to reduce butter production. This trend was expected to continue through 1991, causing a further decline in production of about 5 per cent. Butter consumption had slipped by some 6 per cent in 1990, as consumers moved away from butter to other low-fat margarines. The rate of decline in butter consumption had been slowing these past several months though, indicating a movement towards stabilization. This trend was also expected to continue this year. Exports of butter at 9,395 tons in 1990, showed a slight increase compared to the 1989 export level of 9,200 tons. Exports in 1991 were expected to be at approximately the same level as last year. There were no butter imports during 1990, nor were any expected during 1991.

23. Production of cheese had been fairly stable during 1990 compared to 1989. At 85,147 tons in 1990, it was 1 per cent higher than in the previous year. Because of the expected decline in total milk production, cheese production was expected to be about 8 per cent lower in 1991 than in 1990. Norwegian cheese consumption was down 4 per cent in 1990. This had partially been the result of problems of quality, but also because of a sharp increase in the domestic price of cheese which took effect on 1 January 1990. This price rise caused an increase in cheese sales towards the end of 1990, thereby exaggerating the statistical drop in consumption between 1989 and 1990. In 1991, an increase in domestic cheese consumption of about 8 per cent was anticipated. Exports increased during 1990 due to a decline in domestic consumption as well as the excess milk production experienced earlier in the year. Exports were expected to be lower in 1991 than last year. Imports of cheese were slightly higher in 1990 than in 1989, and were expected to remain stable during the coming year.

24. Production of skimmed milk powder and consumption during 1990 remained at their usual low levels. No changes in production and consumption levels were expected in the foreseeable future. A limited amount of skimmed milk powder was exported early in 1990, otherwise trade in this product group had remained negligible. This situation was also expected to continue into 1991.

Finland

25. In Finland, milk deliveries to dairies in 1990 were 2.6 billion litres, some 2.1 per cent higher than during the last year. The reason for the increase in production was the record harvest year, which led to a high average production per cow (5,500 litres/cow). The number of cows did not decrease during the latter part of the year, being 490,000 head in December 1990. Estimates for the year 1991 indicate that deliveries to dairies would decrease by 9 per cent to 2.4 billion litres. The number of dairy cows would decrease by some 47,000 head because of the large scale milk bonus ceasing system, which began in December 1990.

26. Butter production in 1990 was 62.2 million kgs. (1 per cent higher than last year) but the consumption fell by 12 per cent. The stocks decreased by 53 per cent because of the larger exports totalling 35.9 million kgs. The average export price was US\$1,480 per ton f.o.b. The price had decreased by 25 per cent during the year. Stocks were 6,600 tons in December. In 1991, butter production was estimated to be some 54 million kgs., consumption 34 million kgs. and exports some 20 million kgs.

27. Cheese production in 1990 was 2.8 per cent higher at 92.9 million kgs. Consumption was 66 million kgs. and exports 28.9 million kgs. The average export price was US\$3,656 per ton f.o.b. The price was slightly increasing. Stocks were 13,200 tons in December. In 1991, production was estimated at 90 million kgs., consumption 67 million kgs. and exports 27 million kgs.

28. The production of skimmed milk powder was 14.9 per cent lower to 22.3 million kgs. in 1990. Consumption was 22.6 million kgs. and exports 2.3 million kgs. The stocks in December were 14,300 tons. In 1991, hardly any exports would be carried out because of a fall in production.

29. The production of whole milk powder was 95 per cent more to total 22.2 million kgs. in 1990. Exports were 23,100 tons and domestic consumption was 1,900 tons. In 1991, production was estimated to be 13 million kgs., all of which would be exported.

South Africa

30. In South Africa, there was still a surplus of industrial milk products - Cheddar, Gouda, skimmed milk powder, condensed milk and full cream milk powder - at the end of 1990. During the calendar year 1990, the production of raw milk increased by 6.1 per cent over the previous year, while the consumption of industrial milk products increased by 2.3 per cent

only. Production for the first quarter of 1991 was estimated to be 8 per cent lower due to the normal trend that it declined after January of each year. The consumption of milk in its various forms would be 1.6 per cent lower during the first quarter of 1991 as compared to the previous quarter.

31. The production of skimmed milk powder, as estimated by the Dairy Service Organisation, would be 5,694 tons during the first quarter of 1991, which would be 22 per cent less than in the fourth quarter of 1990. Consumption was expected to be around 4,920 tons for this period or 11 per cent less than in the previous quarter. Exports during the first quarter totalled 5,165 tons. Stocks at the end of March would be 6,671 tons.

32. The production of whole milk powder in the fourth quarter of 1990 at 3,064 tons, was expected to decrease to 1,973 tons in the first quarter of 1991. Consumption during the same period was expected to increase from 1,780 tons to 2,318 tons. Exports during the fourth quarter of 1990 were 320 tons, but nothing would be exported during the first quarter of 1991. Stocks at the end of March would be around 1,450 tons.

33. Butter output in the fourth quarter of 1990 at 5,238 tons was 3 per cent higher than expected, but it was expected to fall to a level of 4,799 tons during the first quarter of 1991. Consumption during this period was expected to total 4,532 tons. There were no imports during the fourth quarter. A total of 1,622 tons was exported during this quarter, which in the first quarter of 1991 would be around 984 tons.

34. Cheese production was expected to reach a level of 11,546 tons (5,517 tons Gouda and 6,029 tons Cheddar), in the first quarter of 1991, as against consumption which would be 10,544 tons. No imports or exports of cheese were anticipated. Stocks at the end of March 1991 would reach a level of 9,871 tons.

#### Poland

35. In Poland, the output of milk and other dairy products was expected to be 10 per cent lower during the first half of 1991 as against the levels in the same period of last year. This was the result of the introduction of the market economy and abolition of all subsidies. The increase in interest rates had also contributed to the financial difficulties of the dairies. Domestic consumption of dairy products was, however, expected to be 5 per cent higher than last year.

36. As a result of a fall in production, butter stocks had completely disappeared. Imports were expected to be more than 5,000 tons during the first half of 1991.

37. Production of skimmed milk powder was likely to fall by 10 per cent during 1991, while exports in the first half of this year were expected to be around 25,000 tons.

38. In reply to a question by Australia, the Polish representative said that the necessary adjustments in the import regime were still in the process of being made and therefore no clear indication could yet be given

regarding the import regime for dairy products. Regarding the other question as to whether Poland would have a surplus of dairy products other than skimmed milk powder to export, he said that it was more likely that Poland would be importing some butter and cheese in the foreseeable future.

New Zealand

39. While reviewing the general dairy market situation, the representative of New Zealand made a distinction between the butter and anhydrous milk fat market and the markets for milk powders and cheeses. The situation in the latter two products was perceptibly satisfactory, although the recent strengthening of the US dollar vis-à-vis major European currencies had tended to push down export prices, denominated in US dollars. The market situation for butter was clouded by uncertainty about the intake of butter into the USSR. The delivery of butter under the two big contracts concluded in December - for 200,000 tons from the EC and 100,000 tons from New Zealand - had yet to be made. The delay had been caused by hold-ups in obtaining necessary payment guarantees. With continuous economic and political changes in the USSR, the prospects and timing of future butter sales were still uncertain. The USSR had been such a large and pivotal market for dairy product imports that this uncertainty would be a crucial factor in the general market outlook for the time being.

40. New production seasons would soon begin in the Northern Hemisphere with seasonal peaks of milk production and dairy product manufacture occurring in the next three months. This was normally the period during which prices in the domestic markets of these countries eased down although in most cases they were already at or close to their minimum support levels. Further, with production in New Zealand and Australia now winding down seasonally, the change in immediate export availability of major products was unlikely to have a significant influence on export prices. Other factors, especially movements in currency values, were likely to be more important. If the dollar got strengthened further, the EC would have to make off-setting adjustments in its export restitutions to avoid a negative effect on export prices.

41. The favourable production conditions experienced in New Zealand at the beginning of the current dairy season were not maintained through the summer with a heavy fall off in production in January when it was 11.4 per cent below the same period in 1990. The season was now tailing-off rapidly with farmers moving to once a day milking and with many factory sites already beginning to be closed. Milk production for the season as a whole was now expected to be up by between 2-3 per cent only on the 1989/90 season, though this would depend on good pasture conditions being maintained for at least the next six weeks. With the commitment of butter to the USSR, the New Zealand Dairy Board's supply position for all products (with minor exceptions only) was currently very tight although physical stocks of butter on hand were still high because of delays in the shipment of the USSR contract. The availability of skimmed milk powder was especially tight with the Board out of the market other than for regular business with customers with ongoing requirements. Some progress had been made in clearing stocks of acid casein and Cheddar cheese accumulated in

late 1989/early 1990 when buyers drew back from the market because of increasing prices. The maintenance of this relatively well balanced position was crucially dependent on the USSR butter market and on further sales being made there later in the year.

42. The New Zealand Dairy Board reviewed the basic price for manufacturing milk in February but left it unchanged at NZ\$3/kg. milk fat (equivalent to about ECU 6.4/100 kgs. or DM 15/100 kgs. for milk with 4.7 per cent fat, the New Zealand average). Supply availability from Australia paralleled the New Zealand situation, with the difference that the greater part of the butter sold from Australia to the Soviet Union in December (15,000 tonnes) had been physically shipped. The availability for export of core products such as butter and skimmed milk powder from all of the key dairy companies was understood to be tight, to the extent that Australia was virtually out of the market for the time being.

43. On the other hand, milk production in the United States was continuing to grow and, with consumption growth tardy, surplus stocks were being accumulated under the government's price support programme. The provisions of the 1990 Farm Bill limited the possibilities for controlling extra production through reduced price incentives or other means, so the management of current surpluses would depend on controlling stocks through increased consumption or other special outlets. The US Department of Agriculture had initiated a study of possibilities in this area. Some pressure for increased exports might emerge. The 1990 Farm Bill re-authorized the Dairy Export Incentive Program extending it until 31 December 1995. On 1 March, USDA announced some preliminary details on eligible destinations and quantities of product to be made available under the program but the extent to which it would be used, and its market impact were by no means clear yet.

44. With consumption of butter in the EC still declining, the maintenance of an even market balance would depend on a combination of reduced milk production (via milk quotas) and maintaining consumption in special outlets. The latter was especially important with respect to the uptake of skimmed milk in animal feed. The lowering of the effective level of intervention prices for butter and skimmed milk powder (in the case of butter by reducing the price at which butter had been accepted into intervention at the regular tenders, and in the case of skimmed milk powder by extending the payment terms from 45 days to 120 days) had contributed to a general easing back of dairy product prices in the Community. Though in domestic market terms the movement had been relatively small, the full movement had been carried over into lower export prices because there had been an off-setting cut in restitutions. Because export prices were relatively much lower, the impact had been proportionately much more significant. In the case of butter, for example, it had meant that export prices were US\$50-US\$75/tonne or 3-5 per cent lower than would otherwise have been the case.

45. Notwithstanding the USSR situation, market demand for dairy product imports had remained steady for the most part. The Japanese Government had to contend with a minor shortfall in domestic production and had resorted

to limited imports of butter and milk powder to stabilize domestic market prices. Elsewhere, with accessible markets open to competitive supply concentrated in developing countries and the Soviet Union, demand to a major degree was a factor of foreign exchange availability. There had been a deterioration in this regard of the position in some key markets in the Middle East/North Africa region. This was fallout from the Gulf conflict, with political uncertainty influencing banking lending policies and the preparedness to make forward commitments generally.

46. The removal of supply pressures with the sales of butter to the Soviet Union meant that spot sales opportunities for butter were currently in the range of US\$1,450-US\$1,500/tonne. Available markets were, however, very limited and these prices were not necessarily indicative of returns which could be achieved for large sales. Immediate sales opportunities were few, and there were none in prospect for any sizable volumes. The whole market outlook hinged on the USSR position.

47. Though substantial stocks of skimmed milk powder were still held in the EC, supplies from other exporters were tight with no excess stock. Current spot prices typically were in the range of US\$1,500-US\$1,550/tonne lower than the US\$1,550-US\$1,600/tonne range in January, mainly because of currency influences. The New Zealand Dairy Board's minimum benchmark price for new business was US\$1,500/tonne, though maintaining and consolidating this would depend on the influence that currency changes and other factors had on EC export prices. Only limited supplies of skimmed milk powder were now available from Poland and other Eastern European countries compared to a year ago. Though still being sold at discounted prices, this product was mainly being absorbed by the Japanese stockfeed market so that its general market impact was limited.

48. Whole milk powder prices had eased back over the last month so that currently they were US\$75-US\$100/tonne lower than at the end of January, which was generally in the range US\$1,450-US\$1,500/tonne f.o.b. compared to US\$1,525-US\$1,600/tonne f.o.b. earlier. This mostly reflected factors external to the market: easier prices within the EC (in line with trends for butter, skimmed milk powder and other products) and the influence of the stronger US dollar on Community export prices. New Zealand and other exporters must operate in line with these since the Community accounted for 70 per cent of all whole milk powder exports. Market demand had remained steady with, notably, a large purchase in January of 80,000 tonnes of bulk powder by Venezuela, to be supplied during the period February-November 1991. The firm prices bid in the tender for this purchase, and in sales made at the same time of small packs to Algeria, were not, however, carried forward in bids lodged in a 5,000 tonne tender held in Sri Lanka at the end of February. This was won by a Community supplier with a price based on US\$1,400/tonne f.o.b., compared to the lowest Community offer in Venezuela of US\$1,700/tonne at f.o.b. and from the New Zealand Dairy Board - in the Sri Lanka tender - of US\$1,720/tonne f.o.b.

49. Export demand for cheese generally was unchanged with export prices for most varieties steady, though in US dollar terms easier from the EC because of the currency influence. The major exception to this was,

however, with Cheddar where there had been very low and aggressive export pricing from the United Kingdom. Offers had appeared in many markets at prices right down to the GATT minimum of US\$1,500/tonne f.o.b. This had proven to be especially disruptive in the important Japanese market with importers there able to take full advantage of cheap United Kingdom supplies to pressure New Zealand, Australian and other suppliers for matching price concessions.

50. The improved outlook for casein prices at the beginning of the year had continued, especially in the European market where the sharp cut back in EC production last year and reduced availability from Poland had tightened supply. Prices had firmed though, whether this could be maintained would depend on wider skimmed milk market developments and how the changed regulations on the use of casein in dairy product manufacture affected usage patterns. There was still some downward pressure on prices of acid casein in the United States, partly a lagged response to the price reductions in Europe last year and some contraction of demand.

#### European Economic Community

51. In the European Economic Community, cow numbers were reduced by 1.9 per cent in 1989/90, while milk production remained unchanged. Yield per cow increased by 1.4 per cent. Dairy cow milk collected was, however, 0.1 per cent lower and was likely to be further reduced if the current proposals to the EC Council were accepted.

52. As regards different dairy products, butter production in 1990 increased by 1.8 per cent, while its consumption went down by 3.1 per cent. The production of skimmed milk powder in 1990 was up by 11.4 per cent, while the output of whole milk powder was down by 3.3 per cent. Production of condensed and evaporated milk in 1990 was 4.6 per cent down due to developments in their exports. The production of casein and caseinates decreased by 28.4 per cent. The liquid skimmed milk returned to the farms by factories decreased by 30.1 per cent, implying that more was produced than required.

53. As a consequence of a steady decline in exports, the EC's share in world market had substantially fallen for some products. Exports of butter and butteroil in 1988 at 641,000 tons constituted 60.5 per cent of total world exports. In 1989, these exports had further fallen to 394,000 tons or 45.1 per cent and in 1990 to 235,000 tons or 30.4 per cent of the total world exports. Similarly, the exports of skimmed milk powder, which were 614,000 tons in 1988 or 48.7 per cent of the world total, fell to 425,000 tons or 42.2 per cent in 1989 and to 356,000 tons or 37 per cent in 1990. Exports of cheeses, however, showed an increase from 404,000 tons or 45.7 per cent in 1988 to 456,000 tons or 49.5 per cent of the world total. Exports of whole milk powder also tumbled from 596,000 tons or 63.9 per cent in 1988 to 522,000 tons or 60.2 per cent of the world total in 1990. The EC's share in exports of condensed milk remained quite high at 74 per cent, although the exports fell somewhat from 383,000 tons in 1988 to 343,000 tons in 1990. Total exports of the EC's, in milk equivalent, in 1988 were 16.5 million tons (with fat content of 7.3 per cent). This

average fell to 14.2 million tons in 1989 and to 12.9 million tons in 1990 (with fat content of only 3.39 per cent). This, combined with the steep reduction in consumption and exports, led to an increase in stocks. On 14 March 1991, Community butter stocks stood at 308,810 tons (public) and 30,000 tons (private). Skimmed milk powder stocks on the same date stood at 343,000 tons (taking into account the 20,000 tons which were offered into the intervention stocks). The forecast for the world stocks of butter (in twenty-one countries) for April 1991 was 650,000 tons. International stocks of skimmed milk powder were expected to be 600,000 tons. The United States played an important role in this situation, where butter stocks would be around 190,000 tons and skimmed milk powder 50,000 tons.

54. The EC Commission had recently made proposals to the Council whereby the quota would be reduced by 2 per cent and the intervention system would be changed.

55. Average export prices, on f.o.b. basis, for butter were close to the minimum because of the developments of the US dollar and development of prices inside the Community. Average export prices for butteroil were in the range of US\$1,700 and US\$1,800/ton f.o.b. Prices for cheese (mainly to the Japanese market) were in the range of US\$1,940 and US\$1,980/ton f.o.b., compared to the minimum of US\$1,500/ton. Average export prices for skimmed milk powder were also quite high, in the range of US\$1,480-US\$1,490 per ton and for whole milk powder at around US\$1,450 per ton f.o.b.

56. In reply to an Australian comment, the spokesman for the EC said that the question of exports of 200,000 tons of butter to the USSR by the end of September posed difficult problems for its exporters. If the deliveries fail to be realized due to payment difficulties on the USSR side, the stockpiling of such huge quantities of butter would be quite expensive. The situation was uncertain, as in the case of Australia and New Zealand.

#### Argentina

57. In Argentina, milk production increased by 2.4 per cent in 1990 compared to the level in the previous year. The value of exports increased by 3 per cent to US\$143.36 million in 1990. Exports were diversified. While in 1989 milk powders and cheese accounted for 70 and 20 per cent respectively of exports, in 1990 their ratios were 50 and 40 per cent respectively. There were no subsidies on production or exports of dairy products. Certain trade liberalization measures had been adopted with effect from 1 April 1991, under which the custom duties would be reduced to zero and specific duties would also be removed.

58. Butter exports amounted to 7,400 tons in 1990, compared to 6,220 tons in 1989, an increase of 19 per cent. The value of butter exports totalled US\$8.8 million, the main destinations being Brazil with 66 per cent of the total followed by Algeria (23 per cent) and Chile (11 per cent). Average export price for butter sold to Brazil was US\$1,560 per ton f.o.b. in the fourth quarter of 1990.

59. Exports of whole milk powder, at 15,383 tons in 1990, remained almost unchanged as compared to the previous year. Their value reached US\$26.6 million, the principal destination being Brazil; other important markets being Peru, the Philippines and Paraguay. Average export prices in October/December 1990 were US\$1,500 per ton f.o.b. for Peru and US\$1,800 per ton f.o.b. for Brazil.

60. Exports of skimmed milk powder hardly changed in 1990 as compared to 1989, remaining at 25,801 tons valued at US\$41.2 million. The main destination was Algeria which took 50 per cent of the total, followed by Brazil. Average export prices in October/December 1990 were US\$1,700 per ton f.o.b. for Brazil, US\$1,400 per ton f.o.b. for Algeria and US\$1,500 per ton f.o.b. for Peru.

61. Exports of cheese registered a substantial increase in 1990 (by as much as 60 per cent) totalling 22,570 tons or US\$56 million in value, of which 63 per cent or US\$35.8 million were exported to Brazil and the United States, which took as much as US\$17 million. Other important markets were Canada, Japan, Mexico and Australia. Average export prices for cheese in the fourth quarter of 1990 were US\$3,000 per ton f.o.b. for Japan, US\$3,350 per ton f.o.b. for Brazil and US\$3,250 per ton f.o.b. for the United States.

#### Australia

62. Discussing the general situation, the representative of Australia said that the international dairy market was boosted in late 1990 by renewed buyer demand for most major products. However, with the current seasonal increase in milk supplies from the major Northern Hemisphere producers, the market outlook remains finely balanced. A number of unresolved factors had the potential to significantly alter the market's strength and direction later in 1991. Primary among these were:

- the current EC stockpiles of butter and skimmed milk powder. Movements in both the level of these stocks and the buying in price paid for them by the EC Commission would significantly influence internal EC wholesale prices which flowed through into world market prices;
- the growing EC agricultural budget crisis which was prompting cost cutting measures in most sectors of EC agricultural expenditure. The proposed CAP reform such as cuts in the EC's global milk quota substantially reduce the volume of product available for export sale. Similarly, reforms in the EC beef support structure could have important indirect effects on their domestic consumption of dairy products;
- exchange rate movements, particularly between the major EC currencies and the US dollar. Until recently the depreciation of the US dollar had contributed to the recovery in international price by firming EC export prices in US dollar terms. However, the rise in the US dollar's value in the aftermath of the Gulf War would mitigate against these improvements;

- possible changes in EC export refund rates;
- the direction of US Government policy with respect to disposal of its growing stockpiles of butter and skimmed milk powder. If this was achieved through subsidized exports or food aid sales it would have a destabilizing effect on international market prices, and
- whether the USSR, whose purchases in recent years had been instrumental in retaining equilibrium in the butterfat market would continue to purchase on a large scale.

63. Other factors which will impact on prices include the likely reduced influence of East European supplies on market sentiment in 1991. Following the re-unification of Germany and the deregulation of the Polish dairy industry, export levels from Eastern Europe were expected to be curtailed in 1991. The winding down of the Gulf conflict would probably lead to falls in petrol prices which would stimulate world economic growth. Post war reconstruction could also see the re-vitalization of Middle East markets for dairy produce. In the longer term the outcome of the current GATT MTN Negotiations would also have an important influence on the international trading environment for agricultural based products.

64. Regarding the specific butter and butteroil situation in Australia, he said that, although supplies of milk for manufacturing were down in the first half of 1990-1991, Australian butter/anhydrous milk fat production increased by 1.2 per cent on a commercial butter equivalent (cbe) basis compared to the corresponding period of 1989-90. In earlier months this trend reflected butter's advantage as a storable commodity relative to other products at a time of great market uncertainty. It also partly reflected the strength of export demand for its joint product skimmed milk powder. In more recent months production had been encouraged by renewed export demand for butter and anhydrous milk fat in their own right. The local industry had made significant sales of butter to the USSR and Japan in recent months. There had also been renewed interest in butteroil from buyers in Asian markets. Reflecting these factors, exports in the first seven months of 1990-91 rose to 34,566 tonnes - up 10 per cent on the corresponding period in 1989-90. Sales of both bulk butter, anhydrous milk fat and ghee increased, but sales of pat and tinned butter were adversely affected by the Gulf War. Overall butter production for 1990-91 was now forecast to rise by 2.1 per cent compared to 1989-90 to 113,500 tonnes. The rate of increase in domestic consumption was likely to be lower with sales expected to increase marginally by 0.5 per cent in the year to 30 June to 57,000 tonnes. On a more positive note, the rapid growth of the butter blend market had seen butter increase its share in the domestic table spread market at the expense of margarine at a time when total retail demand for spreads had been gradually declining. Given the strength of export sales, concerns had eased over the level of manufacturers' stocks in recent months. Closing stocks for the season were likely to be similar to last year's levels.

65. The situation regarding skimmed milk powder was that production in the first half of 1990-91 of 96,600 tonnes was 6.8 per cent (or 6,124 tonnes) above the corresponding period in 1989-90. This growth reflected a number

of factors including skimmed milk powder's advantages as a storage product and the continuing strength of export demand for this product in 1989-90. Skimmed milk powder production was also boosted by the availability of additional skimmed milk supplies as a result of a decline in local casein production. Exports of skimmed milk powder in the first seven months of 1990-1991 cf 57,300 tonnes were up by almost 15 per cent on the previous year. Steady interest from overseas buyers in the first half of 1991 was expected to see export sales of skimmed milk powder for 1990-91 increase by up to 16,600 tonnes (17.8 per cent) to 110,000 tonnes. Domestic consumption was forecast to rise by 1.7 per cent to 42,000 tonnes reflecting increased industrial usage of skimmed milk powder. This would reverse the trend of the previous two years when demand was adversely affected by changes in the input mixes used by local manufacturers, particularly in the domestic ice-cream industry. These trends were expected to see a sharp reduction in year-end stock of skimmed milk powder which were anticipated to fall by around one fifth to 20,600 tonnes. Buttermilk powder production of 5,407 tonnes in the first half of 1990-91 was 4.9 per cent down on the corresponding period in 1989-90. These production trends reflected the reduced export market opportunities for buttermilk powder at present. Buttermilk powder exports in the first seven months of 1990-91 fell to 3,836 tonnes or by 17 per cent from their level of 1989-90.

66. Australian cheese production in the first half of 1990-91 totalled 103,200 tonnes. Of this 68 per cent (70,200 tonnes) was Cheddar types and 32 per cent (33,000 tonnes) non-Cheddar varieties. This represented an overall decline of 2.4 per cent compared to the corresponding period in 1989. However, the fall in output was mainly centred on Cheddar (down 5.0 per cent) and fresh cheese varieties (down 3.0 per cent). Production of non-Cheddar cheeses actually rose by 3.5 per cent following strong growth in the output of shred type and hard grating cheeses. Total cheese production for 1990-91, however, was expected to be only slightly below 1989-90 levels. In recent months the renewed demand from Japan for Cheddar and shred cheeses - driven by lower stock levels in that country - had helped boost production back towards 1989-90 levels. Export sales of cheese to Japan between July 1990 and January 1991 were 5,400 tonnes higher than in the corresponding period of the previous year. After declining slightly in the September quarter, domestic consumption of locally produced cheese was up by 2,000 tonnes in the December quarter compared to 1989. This reflected strong consumer demand for lower fat varieties. Overall sales for 1990-91 were expected to be in line with the previous year. The recovery in export demand, coupled with steady production and local demand trends was expected to see closing stocks for 1990-91 fall below their 1989-90 by around 3,500 tonnes.

#### Bulgaria

67. According to preliminary data, milk production in Bulgaria fell by 7 per cent in 1990 due to a continuous decline in cow numbers and a drop in productivity.

68. The output of cheese in the fourth quarter of 1990 decreased by 2,800 tons to 22,300 tons as compared to the same period in 1989. As a result, the annual production of cheese in Bulgaria dropped to 145,400 tons. Exports in the last quarter of 1990 also decreased further by 12 per cent to 4,300 tons, compared to the same quarter of last year. The main export markets were the USSR, Cuba, the United States and Australia. Due to the decline in export sales in the third quarter of 1990, exports of cheese in 1990 were about 18.5 per cent less than in 1989. With no imports during the second and third quarters, imports of cheese decreased sharply in 1990 totalling 1,400 tons and mainly supplied by Austria, Germany and Denmark.

69. In 1990 there were no imports or exports of skimmed milk powder. With no imports in the third and fourth quarters of 1990, the overall amount of imports of whole milk powder reached 2,500 tons. The exporting countries were Belgium, Germany, Austria, the Netherlands and Norway. There were no exports of buttermilk powder in 1990. With no imports in the third and fourth quarters, a drop of 68 per cent in the imports of buttermilk powder was registered in 1990, thus totalling 1,500 tons. The only exporting country was Germany.

70. Butter production in the last quarter of 1990 fell to 4,300 tons. However, with an increased production during the second and third quarters, the annual production of butter in 1990 reached 22,000 tons, which was slightly superior to the 1989 level. Imports of butter during the fourth quarter of 1990 nearly doubled, compared to the same period of 1989 and reached 2,200 tons. The overall quantity of butter imported in 1990 reached 4,700 tons mainly supplied by Germany and France. There were no exports of butter in 1990.

71. Regarding the general situation in the agricultural sector, an economic programme at the beginning of 1991, was introduced by the government, initiating major structural reforms. From February 1991, a comprehensive price reform which eliminated almost all restrictions on producer and consumer prices had been implemented. For essential foodstuffs (in particular bread, flour, meat and meat products, milk and dairy products, vegetable oil and sugar), as well as passenger fares, the government had assessed new market prices, involving an average five-fold increase from the previous administered levels. The government would monitor developments in these prices and intended to intervene only if they exceeded the projected levels. The intervention would be mainly indirect, relying on market instruments. New fiscal and tax policies, which would play a crucial part in the stabilization and restructuring process had been implemented. A comprehensive reform of the exchange system based on an interbank foreign exchange market had also been introduced. The foreign trade regime was also being liberalized by gradual phasing-out of State plan agreement with former CMEA countries. Since January 1991 trade with them had been carried out at world prices and in a convertible currency. A far reaching privatization programme was being evolved, which also affected monopoly structures in the production and trade of agricultural products, including dairy products. By the end of February a Bill on land reform had been adopted, which among other things enacted the removal of all

restrictions on the sale of land, except sales for foreigners and was expected to have a positive effect on the development of Bulgarian agriculture. As a result of this Bill, the land would be transferred back to its former owners and the leasing of the land on market terms was also being allowed. With Ordinance No. 13 from 8 February 1991, in connection with acute domestic shortages, the government temporarily prohibited the export of milk powder, milk and yoghurt, cream and buttermilk. Under the same Ordinance, an export tax on cheese amounting to 30 per cent of the export price has been introduced. These restrictions would gradually be eliminated during the year.

Hungary

72. The year 1990 was a difficult if not dramatic year for the Hungarian dairy sector. A drought had driven up feed prices but most of the problems had been caused by the substantial changes in the domestic market for dairy products: the balance between production and consumption had been upset with major increases in consumer prices. This had resulted from the withdrawal of consumption subsidies, bringing about a doubling of prices compared to 1987. The extent of these price increases had by far surpassed the otherwise high level of overall inflation. The higher prices caused a major drop in consumption, although detailed data for individual products were not yet available for 1990. In the last three years total per capita consumption of milk and dairy products had decreased by some 20 per cent, from 200 to 160 litres (in milk equivalent).

73. Cattle herd numbers showed a continued downward trend which had continued since the early eighties. At the end of 1990, the herd stood at around 1.6 million head, down from 2 million head ten years before. In 1990, a further drop of some 2 per cent had been registered; cow numbers had also shown a decrease. Improving yields, however, had resulted in an unchanged level of milk production which was estimated for 1990 at around 2.8 million tons. The contraction of domestic demand for fresh products caused an increase in the production of most processed dairy products. This brought about increased exports and higher stock levels. The marketing possibilities, however, had been negatively influenced by a major downturn in intra-Comecon trade, especially by payment problems in the Soviet market.

74. As regards the individual product groups, the production of milk powders was 43.9 thousand tons in 1990, an increase of some 20 per cent compared to the previous year. Stocks at the end of the year totalled some 3 thousand tons, while exports, especially those of skimmed milk powder showed a major increase from 5.7 to 10.8 thousand tons. The major market was Austria, with smaller sales to Yugoslavia, Turkey and a number of other destinations. Export of whole milk powder increased only by some 3 per cent to 6.2 thousand tons in 1990. Almost half of this amount was destined to Romania with smaller amounts being sold to Western European destinations, to the United States and some other countries. There were no imports of skimmed milk powder while 300 tons of whole milk powder were imported, the same amount as in 1989.

75. The production of butter registered a slight increase, i.e. from 37.1 to 38.1 thousand tons. Stocks had increased substantially, reaching 6 thousand tons by the end of 1990, against 3.8 thousand tons one year before. Exports had also increased from 5 to 8.8 thousand tons. Most sales were destined to surrounding countries, including the USSR, Romania, Yugoslavia and Austria. As in 1989, there were no imports of butter.

76. The production of cheeses (including processed/remelted cheeses) increased by some 8 per cent, from 58.6 to 63.3 thousand tons. Consumption which had dropped by almost 10 per cent in 1989 alone was estimated to have decreased further in 1990. Exports had increased substantially from 13.7 to 22.2 thousand tons. Over 50 per cent of this amount was destined to Yugoslavia, other important markets were the traditional destinations in the Middle East, some Western European countries and the United States. Imports remained small, totalling some 100 tons.

77. The prices experienced in the dairy trade were lower in 1990 than in the previous year, especially in the second half of the year. Higher prices were achieved only with respect to cheeses, averaging US\$1,900-US\$2,000 per ton.

78. As regards the prospects for this year, 1991 was still expected to be a difficult year for the Hungarian dairy sector, mostly due to the situation in the domestic market. A number of measures had been taken to correct the major imbalance between supply and demand. The domestic prices of some dairy products had already dropped in response to decreased consumption and this would hopefully drive up demand again. Moreover, increased amounts of milk and dairy products would be used for welfare purposes. The Government had taken certain measures also on the production side, by offering a bonus to producers for slaughtering dairy cows in order to curtail milk production.

#### Japan

79. The growth rate of milk production registered a relative slowdown in the last months of 1990. During the period August to November 1990, milk production declined slightly as compared to the corresponding period of the previous year. However, milk production recovered in December 1990 increasing by 0.1 per cent compared to December 1989. All in all, milk production during the period April to December 1990 showed a slight increase compared to the corresponding period of 1989 amounting to 6.19 million tons, up by 0.9 per cent. Demand for fresh milk for drinking, which accounted for 63.1 per cent of total production in the period April to December 1990, increased at a moderate pace. In December, the price was about 2.2 per cent higher than in December 1989.

80. Skimmed milk powder production decreased by 8.6 per cent during the fourth quarter of 1990 as compared to the same period last year. The decline was caused by the slowdown in milk production and the strong demand for fresh milk for drinking. However, early in 1991, production began to pick up. Imports in the period April to December 1990 amounted to 81,000 tons, a decline of 18.2 per cent compared to the corresponding

period in 1989. Taking into account that wholesale prices of skimmed milk powder began to increase from September onwards, the Government of Japan decided to import 5,000 tons of skimmed milk powder in December. Import prices during the period from April to November 1990 for skimmed milk powder for animal feed purposes were 6.3 per cent lower than in the corresponding period of 1989. The prices of powder for human consumption were 18 per cent lower.

81. Butter production fell by 11.1 per cent in the fourth quarter of 1990, for the same reasons which were responsible for the drop in skimmed milk powder production. However, the recovery in butter production was delayed compared to that of skimmed milk powder. In December, the decrease in butter production was of the order of 9.2 per cent and was due to the quick recovery of whole milk powder output (+9.5 per cent) and cream production (+6.2 per cent) in the month of December. Imports during the last three quarters of 1990 amounted to 7 thousand tons, a decrease of 30 per cent compared to the corresponding period of 1989. In December 1990, the Government of Japan decided to import 3,500 tons of butter. Deliveries were effected until February 1991. Import prices in the period from April to November 1990 dropped by 24.6 per cent in relation to the corresponding period of 1989.

82. Cheese production decreased by 3.8 per cent in the period April to November 1990 as compared to the corresponding period of 1989. Imports during that period totalled 73,100 tons, of which natural cheeses were 72,000 tons (a decrease of 5 per cent) and processed cheeses were 1,171 tons (5.6 times higher than in the corresponding period of 1989). Import prices of natural cheeses during that period remained high (16.5 per cent above the corresponding period of 1989). Import prices of processed cheeses declined slightly during this period (1.6 per cent).

83. Referring to the statistical information submitted by Japan and distributed to participants in the meeting, the spokesman for the EC noted a discrepancy between certain figures given in that document and figures mentioned by the representative of Japan, while the representative of Japan said that production of cheese had decreased in Japan the figures indicated in the reply to Questionnaire 3 indicated an increase in production. In reply, the representative of Japan explained that in his statement he had made reference to total production of cheeses, i.e. production of natural cheeses and processed cheeses together, while the figures submitted in the reply to Questionnaire 3 referred only to natural cheeses. He apologized for confusion in this regard. However, his delegation wished to stress that in order to examine the trends of cheese production in Japan it was necessary to make a distinction between these two varieties of cheeses. In Japan, consumption of processed cheeses was substantially higher than that of natural cheeses. He added that 75 per cent of natural cheeses produced in Japan and 40 per cent of natural cheeses imported were not consumed directly and were transformed into processed cheeses.

84. The spokesman for the EC, referring to the prices of cheeses in international trade furnished by Japan in its reply to Questionnaire 3, noted that the minimum import prices of cheeses originating in New Zealand

and Canada were the lowest prices shown in that table (respectively US\$2,085 and US\$2,045 per ton) while the minimum import price of cheeses originating in the EC was the highest, i.e. US\$3,596 per ton, thus substantially higher than the other import prices. In the view of his delegation, the Japanese notification was exemplary as it proved that EC cheese prices in international trade were still the highest despite the accusations that Community refunds had been increased and that the Community was selling at extremely low prices. It was true that it was realized that Community cheeses were of better quality than others and caught a premium in international trade, but as shown in Japan's reply to Questionnaire 2, import prices of butter originating in the Community were also substantially higher than those of butter imports into Japan from New Zealand and Australia.

85. Referring to the Japanese reply to Questionnaire 3, the representative of New Zealand noted that the prices mentioned as being the import price of cheese from New Zealand did not seem accurate. These prices had no resemblance whatsoever to contract prices that the New Zealand Dairy Board entered into with Japan. His delegation would be grateful if the Japanese delegation could furnish an explanation on this question and inform the Committees on the exact minimum and maximum import prices of cheese originating from New Zealand. He reiterated that the prices mentioned in the reply did not correspond to the sense of the transaction undertaken with Japan and that there were probably statistical concoctions.

86. The representative of Japan said that in 1990 the volume of cheese imports decreased by 5 per cent while its value increased by 11 per cent. In 1990, the first supplier of cheese to Japan was the Community, the exports of which decreased by 7 per cent in volume but increased by 9 per cent in value. The second supplier was New Zealand with the volume of cheese sold to Japan remaining unchanged but with the value increasing by 9 per cent. His delegation hoped to furnish more detailed information at the next meeting with the co-operation of exporters of cheese to the Japanese market.

#### Canada

87. The observer from Canada said that during the calendar year 1990, total milk production was almost identical to that for 1989, but there were some interesting fluctuations for individual products.

88. Production of skimmed milk powder decreased slightly, dropping by 3,000 metric tons which represented just over 3 per cent of total production. Exports of skimmed milk powder rose by 5,800 metric tons, or 16 per cent, but domestic consumption fell by 12,000 metric tons, so that stocks recovered somewhat from their relatively low level at the end of 1989.

89. Butter production experienced a small increase of 2.6 per cent or 2,600 metric tons and exports of butter rose by 1,700 metric tons. Meanwhile, domestic consumption continued its declining trend, falling by 3.5 per cent. The result was that stocks rose sharply, increasing by about 5,000 metric tons to a year-end level of just under 20,000 metric tons.

90. Cheddar cheese output rose by only 2 per cent but exports fell by over 20 per cent and domestic consumption also experienced a decrease of 7 per cent, resulting in stocks increasing by 5,000 metric tons to just over 33,000 metric tons.

91. The picture was roughly similar for whole-milk cheeses, with production up by less than 2 per cent, but exports down by 15 per cent. However, domestic consumption of these cheeses did not decline, so year-end stocks rose by less than 1,000 metric tons or by less than 7 per cent.

92. Regarding developments in the current dairy year (ending 31 July 1991), he said that the Canadian Milk Supply Management Committee had imposed a 3 per cent reduction in the national Market Sharing Quota (MSQ). This followed a similar cut of 3 per cent made during the 1989-90 dairy year.

93. Production of cheese, both Cheddar and speciality cheeses, was expected to increase by just over 1 per cent in the 1990-91 dairy year as the trend to increasing domestic consumption began to flatten out.

94. Butter production was forecast to drop by nearly 5 per cent by the end of the current dairy year. Despite this decline in production, butter stocks would remain at relatively high levels. In order to avoid further stock build-up, an additional cut in MSQ was being considered for the beginning of the 1991-92 dairy year.

95. As Canadian consumers continued to shift their purchases of fresh milk towards products containing only 1 per cent or 2 per cent butterfat, more of the domestic demand for butter was being produced from the fresh milk skim-off and less skim milk was available for skimmed milk powder production. Based on current trends, the Canadian structural surplus in solids-non-fat could disappear over the next few years.

#### OECD

96. Commenting on the current situation the observer from the OECD said that compared with 1989, the OECD dairy situation in 1990 was characterized by rising output, increasing levels of intervention stocks, lower consumption of butter and milk powders, and continued strong demand for cheese. Since the last report there had been a sharp turnaround in world prices for most dairy products, emphasizing the residual and fragile nature of the world market.

97. Aggregate OECD milk production (about 40 per cent of world output) had declined significantly since the mid-1980's due to the continued implementation of supply management programmes such as quota programmes and buy-out schemes. However, the downward trend in milk output was interrupted in 1990 when production rose by 1 per cent, to 218.5 million tons. This increase was primarily related to higher output in the United States as well as to the continued rise in average yields per cow throughout the OECD, which more than offset the continuing decline in cow numbers.

98. The stagnant demand for milk fat on domestic markets, together with lower export demand for butter and skimmed milk powder, resulted in increased volumes of butter and skimmed milk powder going into intervention stocks in 1990, particularly in North America and in the European Community. These carry-over stocks in both the United States and the EC at the end of the fourth quarter were considerably above the 1989 carry-over volumes.

99. With regard to the medium-term outlook, he observed that dairy cow numbers in OECD countries were forecast to continue to decline through 1995, when the aggregate herd was expected to be about 6.7 per cent below the 1990 level. The exception was New Zealand, where cow numbers would rise by about 3.5 per cent, due to herd-rebuilding. Average yields per cow were forecast to rise by about 2 per cent annually in most major producing countries, assuming a continuation of the current rate of the adoption of technological innovations by producers. Aggregate milk production in OECD countries was forecast to rise by about 1 to 2 per cent by 1995. As regards major producers, output was expected to rise slightly in the European Community and in Australia, and to remain stable in Canada. Increases were foreseen in New Zealand and Japan, while a decline of almost 8 per cent was forecast for "other Europe", primarily due to significant declines in Finland, Sweden and Norway.

100. Most member countries continued to rely on supply management measures, primarily quota programmes, to regulate milk output. Over the past few years, the adjustment of these policies had helped to reduce aggregate OECD output. Nevertheless, aggregate OECD milk production rose by 1 per cent in 1990. Much of this increase occurred in countries where strict supply management programmes were not in force. This rise was also partially due to continuing structural imbalances in most OECD countries' dairy sectors, in spite of the generally more restrictive quota/levy policies in many of these countries. As a result of rising milk output, aggregate net export availabilities of milk fat rose by 4.6 per cent in 1990 (after a decrease of 16 per cent during 1988-1989). In the absence of a significant turn-around in the international market, as well as in OECD per capita consumption patterns over the medium term, OECD countries were likely to continue to be faced with substantial net export availabilities of milk fat.

101. In summary, the down-turn in international dairy markets in 1989 and 1990 underscored the fragility of this market, as well as the uncertainty of this outlet for commercial OECD exports.

Economic Commission for Europe

102. The observer from the Economic Commission for Europe informed the Committees that at the beginning of 1991, cow numbers in the USSR were about 0.7 per cent lower than a year earlier, amounting to 41.4 million head.

103. Milk output in the USSR during 1990 registered only a very marginal increase of 0.2 per cent. The fall in cow numbers was not compensated, as was the case in the past years, by increased productivity. The feeding

conditions worsened during 1990. The feeding available was poor in quantities as well as in quality. The outlook for 1991 was rather bad as the situation in the feeding sector would probably remain unfavourable.

104. Butter production in 1990 remained practically unchanged at about 1.8 million tons. Consequently butter imports increased by about 5 per cent during 1990.

105. As mentioned earlier, the productivity in the dairy sector was not likely to improve during the year 1991. One of the consequences could be increased import requirements of dairy products, particularly butter. But the lack of hard currencies might impede the expansion of these imports, as also the need for the USSR to import other agricultural products like cereals, meat, etc.

Adoption of report to the Council

106. The three Committees agreed that an oral report giving an account of discussions at the present session would be submitted to the Council. This report was later incorporated in the report of the Council.

Other business

Disparity in reported prices and the actual world market prices

107. The delegate of South Africa drew attention of the Committees to the significant disparity in price levels reported by certain participants and those actually prevailing in international trade. He said that the prices quoted by major exporters did not necessarily correspond with the actual world market prices. By way of an illustration he gave the example of the EC quotation of US\$1,480-US\$1,490 per ton for skimmed milk powder as against Japan's reported price of US\$1,284 for the same product in their reply to Questionnaire 1. In any case, current skimmed milk powder prices were very close to the GATT minimum export prices which posed serious difficulties to his country's exports. Despite this, South Africa was determined to respect the minimum export prices.

108. The representative of New Zealand disagreed with the assertion made by South Africa that certain participants were selling skimmed milk powder at or below the GATT minimum prices. He stressed that New Zealand had strictly adhered to the GATT minimum export prices. The prices reported by New Zealand were those for skimmed milk powder used for human consumption and currently ranged between US\$1,450-US\$1,500 per ton f.o.b. Prices for skimmed milk powder used for animal feed purposes could be below this range if sales were made in conformity with Article 3:5 of the Protocol Regarding Certain Milk Powders and provided the procedures laid therein were strictly followed. It was obvious that South Africa currently had some surplus problems and found it difficult to adhere to the GATT minimum export prices. Being a sporadic exporter, however, South Africa had three alternatives to overcome its present difficulties. It could dispose of surplus stocks of skimmed milk powder internally or sell unaltered skimmed milk powder to Japan for animal feed purposes or obtain the approval of the Committee for adopting the prescribed control measures and their recording

in the Annex to the Protocol. Having adopted the necessary processes and control measures, South Africa could then export its denatured powder for animal feed to any buyer at prices below the GATT minimum export price.

109. Sharing the views expressed by New Zealand, the representative of the EC pointed out that on an average, 400,000 tons of skimmed milk powder were sold annually, of which Japan took only 7,000 tons (in 1990). The bulk of EC exports was for human consumption and was at prices above the GATT minimum. The discrepancy pointed out by South Africa regarding the reported price levels was infounded because the prices reported by the EC (US\$1,480-US\$1,490) were the recent prevailing prices while those submitted by Japan in Questionnaire 1 referred to those in the fourth quarter of 1990. There was thus no discrepancy in information provided, only a difference in reference periods. Sales by the EC of skimmed milk powder for animal feed purposes under Article 3:5 of the Protocol were insignificant, as mentioned earlier.

110. The representative of Australia reiterated 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. His own country had very strict legislation and was therefore strictly adhering to the minimum prices set out by the International Dairy Arrangement.

111. The representative of the EC, however, repeated that by signing the Arrangement the participants had undertaken to take the steps necessary to ensure that the export prices would not be less than the minimum prices applicable under the Protocols. Therefore the Australian request was redundant.

112. Summing up, the Chairman observed that the question of the discrepancy in prices reported by the participants merited further consideration and therefore this item would be kept on the agenda at the next meeting in June. The participants were requested to come prepared for the next meeting with the help of background information on this subject.

#### Technical relationship between export prices fixed for pilot products

113. It was also suggested that the technical relationship between the prices fixed for different dairy products had been seriously distorted over time by periodic changes in the minimum prices which were often fixed on political grounds rather than strictly technical considerations, should be re-examined. The Committees agreed to revert to this matter at their June meeting. Such preliminary discussions were expected to facilitate the traditional September review of the level of the minimum prices. Participants wishing to furnish background notes in this connection were invited to do so well before the next meeting.

#### Date of next meeting

114. The next sessions of the Committees will be held on 17-18 June, subject to confirmation by the secretariat. The Committees will again meet in joint session, but separate meetings could be convened in the order of milk powders, milk fat and cheeses, if it was deemed necessary.