

GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

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Special Distribution

International Dairy Arrangement

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

Report of the Fifty-Second Session

14 December 1992

Introduction

1. The three Protocol Committees held a joint session on 14 December 1992 to discuss matters relating to the operation of the three Protocols.

Adoption of the agenda

2. The following agenda was adopted for the joint session:
- A. Adoption of report on the fifty-first session
 - B. Information required by the Committees:
 - (i) Replies to questionnaires:
 - Questionnaire 1: Certain milk powders
 - Questionnaire 2: Milk fat
 - Questionnaire 3: Certain cheeses
 - (ii) Summary tables
 - (iii) Other information
 - C. Transactions other than normal commercial transactions
 - D. Sales under derogation
 - E. Review of the market situation
 - F. Review of the level of the minimum prices under Article 3:3(b)
 - G. Adoption of report to the Council
 - H. Date of the next meetings

Adoption of report on the fifty-first session

3. The report of the fifty-first session was adopted and distributed in document DPC/PTL/27.

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 pertaining to the third quarter of 1992 to do so without further delay. Participants were also requested to provide the relevant information concerning the fourth quarter of 1992 by 12 March 1993, at the latest.

(b) Summary tables

5. The Committees took note of the summary tables based on data provided by participants in Tables A and B of the questionnaires with respect to milk fat (DPC/PTL/W/84), cheeses (DPC/PTL/W/85), skimmed milk powder and whole milk powder (DPC/PTL/W/86).

(c) Other information

6. The Committees took note of the data which the Secretariat had compiled on production, trade, stocks and consumption of dairy products in the United States during the third and fourth quarters of 1992.

Transactions other than normal commercial transactions

7. Participants exchanged information on transactions other than normal commercial transactions. The representative of the EC provided information regarding food aid to developing countries, Central and Eastern Europe and to the former USSR area, which will be included in their reply to Questionnaire 5. In view of the commercial importance of the former USSR market, particularly for butter, certain participants recalled their concern that such aid should not disrupt normal commercial trade nor be diverted by recipients to third-country markets. The representative of the EC reiterated that such issues were being discussed by the so-called G-24, which was co-ordinating aid efforts among donor countries.

Sales under derogation

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

Review of the market situation

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

European Economic Community

10. The Community's dairy sector was most concerned with the consequences of the agreement between the Community and the United States in the agricultural negotiations of the Uruguay Round. The response had been demonstrations in a number of areas in the Community while there had been celebrations in other milk producing countries around the world. The introduction of the single market would also have consequences for trade in dairy products over the next months as there would be no border controls and the monetary compensatory system would most probably disappear. Although there had been a single market in the milk sector in the Community since 1968, the volume of liquid milk and fresh products crossing internal borders was less than 3 per cent.

11. The market situations for butter and skimmed milk powder had developed differently since the previous meeting of the Committees. Export refunds had been increased in response to the concerns of Community traders that they were being pushed out of the market. However, some refunds were later decreased following increases in the value of the United States dollar.

12. Producers and processors in the Community were also concerned by the United States Dairy Export Incentive Program. On the basis of the United States market prices for butter and skimmed milk powder and the level of available export subsidies, potential export prices excluding transports costs could be as low as US\$1,050 per metric ton (f.o.b.) for butter and US\$1,230 per metric ton (f.o.b.) for skimmed milk powder.

13. The market situation for milk and milk products was reasonably firm with the exception of butter. Milk deliveries had increased in September and October, leading to a fall in both butter and skimmed milk powder prices. However, skimmed milk powder prices had since risen again. Milk deliveries in the 1992/93 quota year to date were about 3 per cent below quota, although this shortfall seemed to be diminishing.

14. The internal butter market had weakened in the past few months and average prices had dropped from about 93.5 to 91.5 per cent of the intervention price. Intervention purchases were small, with total purchases of approximately 48,000 tons in 1992. Sales from intervention amounted to about 135,000 tons in 1992.

15. Subsidized internal consumption of butter in 1992 was slightly lower than in 1991. The pastry and ice-cream sector had bought some 357,000 tons in 1992, 2.5 per cent less than in 1991. The cooking butter sector had absorbed about 18,800 tons in 1992, which was about the same as in 1991. There were also schemes to benefit social welfare recipients.

16. The skimmed milk powder market had been very firm for a number of months although prices had dropped slightly in late September and in early October. The skimmed milk powder price dropped from 115 to 103 per cent of the intervention price in early October, but had increased to 114 per cent of the intervention price by mid-December.

17. Sales of skimmed milk powder from intervention and sales of powder intended for animal feed continued to be made at ECU 179 per 100 kgs. Total sales of powder from intervention amounted to 330,000 tons in 1992, of which some 180,000 tons were sold for animal feed and 150,000 tons were sold without specified destination.

18. There were currently 165,000 tons of public stocks of butter and 95,000 of private stocks. Public stocks of skimmed milk powder were at 50,000 tons. Public stocks of cheese stood at 7,000 tons and private stocks at 155,000 tons.

19. The changes in the quantity of Community exports of the main dairy products during the first nine months of 1992 as compared to the corresponding period of 1991 were as follows:

	<u>Percentage change</u>
Fresh products	+ 1.3
Condensed milk	+ 5.4
Skimmed milk powder	+ 70.0
Whole milk powder	- 3.7
Butter	- 15.0
Butter oil	+ 1.0
Cheese	+ 3.6
Whey	- 14.6
Casein	+ 24.0

20. The current ranges of calculated export prices on an f.o.b. basis were:

- between US\$1,450 and US\$1,550 per ton for butter;
- between US\$1,770 and US\$1,950 per ton for butter oil;
- between US\$1,850 and US\$1,950 per ton for skimmed milk powder;
- between US\$1,700 and US\$1,800 per ton for whole milk powder;
- between US\$1,960 and US\$2,100 per ton for Cheddar cheese.

Poland

21. Cow numbers and milk production continued to decline in 1992. In the first half of 1992 the situation of cattle-breeding started to stabilize, however drought conditions led farmers to limit fodder usage in an effort to maintain basic stock levels. Therefore, annual yield per cow could drop below 3,000 litres. Milk production was forecast to decline to 12.4 billion litres in 1992 and further drop below 12.0 billion litres in 1993. Purchases of milk could drop by 13.5 per cent to about 6.5 billion litres in 1992, and decline a further 4.5 per cent to some 6.3 billion litres in 1993.

22. The fall in the supply of raw materials had led to a decline in the output of dairy products. However, the rate of decrease in production varied among products, due to the differences in the domestic demand for individual products. Production dropped most sharply for butter, milk

powders and casein production. Output of edible skimmed milk powder and hard cheeses fell at the same rate as milk deliveries. Production of cottage and spread-type cheeses decreased only slightly while the production of cream and milk desserts rose. Moreover, the prices of these latter two groups of dairy products increased relatively faster in comparison to others, although the consumption of cream increased whereas that of cottage cheeses fell slightly. Butter consumption, estimated at 5.2 kgs. per capita in 1992, continued to drop.

23. Direct sales by the producers played a great rôle in the market supply of dairy products: about 40 per cent of liquid milk for drinking, 30 per cent of cottage cheeses and cream and 10 per cent of butter were delivered to the consumers directly by farmers. Furthermore, a decrease in imports favoured domestic products, in particular new products such as long life milk, ice-cream and milk desserts.

24. The expected decline in the purchases of milk in 1993 will result in a further reduction in dairy production. A small decrease is expected in supplies of fresh milk for drinking while long-life milk sales should remain at the level of 1992. It is also anticipated that the rate of decrease in the production of casein and milk powders will be greater in 1993 than in 1992. However, the supply of ice-cream, yoghurt and other milk drinks and desserts could increase in 1993.

25. Polish imports of butter, Cheddar-type cheeses and milk desserts had increased. Exports of hard cheeses, skimmed milk powder, whole milk powder and casein dropped in 1992.

South Africa

26. Until March 1992, milk production declined at an accelerated rate which caused concern for the dairy industry. However, the trend had started to show signs of flattening during June 1992 and it was expected that milk production would start to increase again by June 1993.

27. Production of fresh milk for 1992/93 was forecast to be 5 per cent lower than in 1991/92. Fresh milk consumption was expected to remain at the 1991/92 level of 978,000 tons, resulting in a surplus of approximately 30,000 tons of milk.

28. The estimated consumption of condensed milk, full cream and skimmed milk powder was expected to show a decrease of 0.8 per cent in comparison with consumption in the previous year.

29. The representative of South Africa indicated that the United States had offered unknown quantities of butter for sale in southern Africa at a price of US\$1,050 per ton.

Finland

30. Milk deliveries during the first three quarters of 1992 were 4.5 per cent lower than in the corresponding period of 1991. September 1992 deliveries were 2.4 per cent lower compared to September 1991. It was

expected that deliveries during the fourth quarter of 1992 would be 1 to 2 per cent higher than the corresponding quarter of 1991. Deliveries decreased during the first three quarters of 1992 in response to the new milk buy-out scheme of March to June 1992. The buy-out scheme totalled 107 million litres of milk. Total deliveries were expected to decrease to 2,270 million litres in 1992 and to remain unchanged at this level in 1993.

31. Butter production during January to September 1992 was 7.9 per cent less than during the corresponding period of 1991. The estimate for the whole year of 1992 was 55,000 tons, a decrease of 7.5 per cent. Butter consumption in January-September 1992 decreased by 6.3 per cent. Annual 1992 butter consumption was estimated to decline by 5.7 per cent to 36,000 tons. Finland exported 14,000 tons of butter during January to September 1992. Estimates for 1992 butter exports were 21,000 tons. Butter stocks were 6,500 tons in September. Forecasts for 1993 were for production of 55,000 tons, consumption of 36,000 tons and exports of 19,000 tons. Export prices of butter in the third quarter of 1992 ranged between US\$1,400-US\$1,600 per ton f.o.b.

32. Cheese production during January to September was 68,100 tons, up 3.3 per cent. The estimate for the whole year was 86,800 tons. Consumption was increasing by 3 per cent and was estimated to reach 71,000 tons. Exports during January to September decreased by 4.9 per cent to 19,000 tons and estimated exports for the 1992 year were 26,000 tons. Stocks were 9,700 tons in September. The forecasts for 1993 were for production of 86,000 tons, consumption of 72,000 tons and exports of 23,000 tons. Cheese export prices during the third quarter of 1992 were around US\$4,000 per ton f.o.b.

33. Finnish skimmed milk powder production during January to September declined by 30.7 per cent to 11,600 tons. Exports during January to September were 4,700 tons and stocks were 7,100 tons in September. Total production for 1992 was estimated to be 15,000 tons, with consumption of 14,000 tons and exports of 5,000 tons. Forecasts for 1993 production, consumption and exports were of 15,000 tons, 13,000 tons and 2,000 tons, respectively. Export prices of skimmed milk powder in the third quarter of 1992 were around US\$1,500 per ton f.o.b.

34. Production of whole milk powder declined by as much as 67 per cent to only 2,600 tons during January to September 1992, compared with the same period in 1991. Exports during that period amounted to 2,300 tons. Estimated production for 1992 was 2,600 tons with consumption and exports of 600 and 2,300 tons, respectively. Stocks were 1,300 tons in September. Estimates for 1993 were for production of 400 tons, consumption of 400 tons and no exports. Export prices during the third quarter of 1992 ranged between US\$1,515 and US\$1,650 per ton f.o.b.

Norway

35. Total milk deliveries during the first eleven months of 1992 were 0.5 per cent lower compared to the corresponding period of 1991. Deliveries were expected to decline in December and 1,779 million litres

for the entire year. The forecast for 1993 was for milk deliveries of 1,750 million litres.

36. Butter production decreased by 10 per cent during the first nine months of 1991. This resulted primarily from the decline in milk deliveries as well as from reduced consumption. Production was expected to decline by 10 per cent in 1992 to 15,500 tons. Butter stocks were 1,650 tons in September. Norway exported 4,800 tons of butter during the first nine months of 1992. Total 1992 exports were expected to reach 7,000 tons. The average export price of butter in early November 1992 was US\$1,300 per ton f.o.b. However, taking into account the transport costs between Norwegian ports and reference points, the actual average price was at or above the agreed minimum price.

37. Cheese production increased slightly during the third quarter of 1992 and amounted to 16,200 tons. This compared to 15,900 tons during the same period of 1991. Cheese consumption during July to September increased by approximately 20 per cent compared to the corresponding period of 1991. Total 1992 production was expected to be at the same level as the previous year. Exports during January to September were 19,460 tons, up by 20.4 per cent. Total 1992 exports should reach 26,000 tons. The average export price of cheese in early November 1992 was US\$3,400 per ton f.o.b.

38. 1992 production of skimmed milk powder was estimated at 8,500 tons, a slight increase from 1991. Exports during January to September were 1,280 tons and stocks were 2,000 tons in September. There had been no substantial imports of milk powder during the first half of 1992.

Sweden

39. In the first ten months of 1992, milk deliveries to dairies decreased by 1 per cent compared to the corresponding period of 1991, and total 1992 deliveries were expected to reflect this decline. However, the 1992 summer drought had led farmers to replace home grown hay by forage products of a higher quality, and the expected increased yields could result in increased milk deliveries during the first half of 1993.

40. In the third quarter of 1992 butter production amounted to 6,800 tons, 1,200 tons more than the corresponding period of 1991. Total production in 1992 was expected to be below the previous year's level. Preliminary information indicated a continued decrease in exports of butter during the third quarter of 1992. Total 1992 exports of butter were expected to decrease by 26 per cent to 16,500 tons. The average export price of butter in early December 1992 was US\$1,350 per ton f.o.b., however, only small quantities were exported.

41. Swedish cheese production increased slightly during the third quarter of 1992 and amounted to 28,000 tons, compared to 26,500 tons during the same period of 1991. Total 1992 production was expected to be at the same level as in the previous year. Preliminary information indicated a decrease in exports during the third quarter of 1992. Total 1992 exports were estimated at 1,400 tons compared to 3,700 tons in 1991. Imports of

cheese increased in both the first and the second half of 1992. Stocks at the end of the third quarter of 1992 were slightly above their levels at the end of September 1991.

42. After a decrease in the first two quarters of 1992, production of skimmed milk powder increased by 1,600 tons in the third quarter of 1992 compared to the corresponding period of 1991, to 4,300 tons. Preliminary information indicated that almost no skimmed milk powder had been exported during the third quarter of 1992. Total 1992 exports were estimated at 3,000 tons compared to 17,000 tons in 1991. Stocks had increased but were rather low, i.e. 3,900 tons at the end of September 1992 compared to 1,300 tons at end of the third quarter of 1991. The average export price in early December 1992 was US\$1,625 per ton f.o.b.

Switzerland

43. Milk deliveries in the first nine months of 1992 were estimated at 2.3 million tons, down by 2.7 per cent compared to the corresponding period of 1991. Skimmed milk powder production decreased by 18 per cent to 3,200 tons in the third quarter of 1992, compared to the third quarter of 1991. Exports in that period amounted to 1,200 tons, a decrease by 25 per cent compared to the third quarter of 1991. Export prices averaged US\$2,150 per ton f.o.b. in the third quarter of 1992.

44. Butter production decreased by 8.9 per cent to 7,200 tons in the third quarter of 1992. Imports were almost negligible. Consumption of butter remained stable while stocks at the end of the third quarter of 1992 reached 5,400 tons, 32.5 per cent lower than a year earlier.

45. Cheese production decreased by 2.5 per cent to 34,900 tons in the third quarter of 1992. Exports increased by 18.1 per cent to 16,900 tons in the period July to September 1992. Imports increased by 1.4 per cent to 7,000 tons and consumption remained stable at 24,200 tons in the period under consideration. Stocks of cheese, estimated at 25,800 tons on 1 October 1992 were 2.3 per cent lower than on 1 October 1991.

New Zealand

46. While total production during the 1992/93 season will be determined by the climatic conditions of the major dairying regions, the forecast is for production at or only slightly above the previous season's level. Farms in most regions began the 1992/93 season with limited grass cover because of the dry winter conditions. Extremely wet and cold weather since then had kept growth well below normal. Feeding of supplements had been necessary and many herds were milked only once a day in the spring. During August and September, sunshine levels were 20 per cent below normal, record rainfalls were experienced in some areas, and unusual and disruptive snow storms occurred in Canterbury. Despite these weather conditions, early season milk flows had exceeded last year's levels in most areas. The season's final production result was, however, largely dependent on the end-of-season weather in the year 1993.

47. A major influence on the international market during the last quarter had been the instability of Eurocurrencies and the rebounding of the United States dollar. Heightened uncertainty surrounding political activity in both the United States and European Community had led to significant changes in short-term economic indicators. The instability of foreign exchange markets had been a destabilizing factor which produced volatile short-term pricing patterns. The pound sterling and the green pound had been devalued by 18 per cent and the pound suspended from the European Monetary System. Conversely, the value of the United States dollar had increased from record low levels of below 1.40 DM in the July-September period to current levels of around 1.60 DM. In early October the European Community substantially increased the export subsidies for butter, butter oil and whole milk powder, in response to European traders claims of "uncompetitiveness" because of the weak United States dollar. The intervention was somewhat belated, however, as the dollar had already begun to rally. Reductions to the whole milk powder subsidy in mid-November, and more recently reductions for butter and butter oil, had helped to partially offset the effect of initial subsidy increases. However, current prices across the main product groups remained US\$250-US\$350 per ton f.o.b. below the seasonal highs recorded during July to September.

48. Stable or improving prices were expected during the final months of 1992 and the first quarter of 1993. This confidence was underscored by the relatively low levels of United States public stocks and EC intervention stocks. The market outlook for butter remained fragile, however, given the continued uncertainty surrounding requirements of the former USSR area.

49. Production in the United States exceeded previous years' levels. This increased production resulted from a combination of unusually good weather and, more significantly, favourable milk to feed price ratios. Milk volumes were 3 per cent higher for the January-September 1992 period compared with 1991. During the third quarter, the increased supply had been absorbed by expanded domestic demand.

50. The 1992/93 dairy marketing year in Canada began on 1 August. Although the quota used to control manufacturing milk production was intended to curb marginal surpluses, figures from Agriculture Canada for the year ending 31 July 1992 showed a disturbing and unwelcome increase in the volume of exports. This was a direct result of reduced consumption within Canada and a deliberate draw-down of stocks. Production of dairy products had not increased substantially, but consumption, particularly of butter, was estimated to have declined by 12 per cent in 1992 compared with the same period in 1991. Exports of skimmed milk powder, cheeses, butter, and whole milk powder increased in the 1991/92 period and subsidized butter sales to Egypt were reported. These developments raised basic questions about the relationship between supply management policies and the export of surpluses.

51. Other major factors in the international dairy market outlook were the demands of traditional large-volume buyers of butter and milk powders, especially the former USSR republics and Algeria and, to a lesser extent, Venezuela and Mexico. Imports of butter by the Soviet Union accounted for

two-thirds of total butter products traded in recent years and had been crucial for the balance of international dairy markets. The Russian Republic and other former Soviet republics now faced severe shortages of foreign exchange to finance imports of agricultural products. Their import demand was not likely to be satisfied due to the prolonged currency crises.

52. Significant Dairy Export Incentive Program (DEIP) sales by the United States in Algeria and, to a lesser extent, in other parts of North Africa/Middle East, Central and South America, had displaced some of the anticipated sales of butter and skimmed milk powder from traditional supply sources. Aggressive DEIP activity, coupled with substantially discounted sales such as Canadian butter exports to Egypt and skimmed milk powder to Algeria and Mexico, had further destabilized already fragile, but valuable, traditional commercial markets. The deteriorating terms of trade in Algeria were exacerbated by demands for eighteen-month credit terms. These terms made trade irregular and represented a significant departure from usual trading practice and posed undue commercial risk.

53. Production and exportable surpluses had been reduced in both Scandinavia and Central Europe. However, these reductions had little effect on the competition for markets in North Africa and South America. Buying activity had diminished in the third quarter as the major purchases of large-volume importers had occurred in the first half of 1992. Growth in milk production in Japan, coupled with a slowdown in consumption demand for drinking milk and some cheeses, resulted in surplus milk being diverted into butter and skimmed milk powder production. This reduced the prospects for Japanese import tenders. Thus uncertainty had prevailed over the third and fourth quarters of 1992, but expectations were that large-volume import tenders would be held in the first quarter of 1993.

54. The indicative export price ranges in the fourth quarter of 1992 on an f.o.b. basis per metric ton were:

Butter	US\$1,350-US\$1,450
Butter oil	US\$1,650-US\$1,750
Skimmed Milk powder	US\$1,775-US\$1,875
Whole milk powder	US\$1,750-US\$1,850
Cheese	US\$1,950-US\$2,050

55. The outlook for markets and prices for milk powders and related products remained fundamentally firm in light of tight supply conditions. In contrast, butter and butter oil faced low demand and higher stock levels, and hence uncertain price prospects.

Japan

56. Production of raw milk during July to September 1992 was 4.9 per cent higher than for the same period of 1991. Production of raw milk during fiscal year 1992 was estimated to be higher than in the previous fiscal year. The demand for drinking milk increased by 1.2 per cent in the July to September period of 1992 due to strong demand, particularly in September. For these reasons, raw milk available for producing butter and

skimmed milk powder increased by 12.5 per cent over the same period. Consequently, production of butter and skimmed milk powder was higher than that of the same period of 1991. Demand for skimmed milk powder was about the same as that of the previous year while demand for butter slightly decreased. Due to continuing strong demand, production of cheese expanded by 4.8 per cent compared to the same period of 1991. Domestic demand also increased.

57. Imports of skimmed milk powder decreased by 20 per cent to 22,000 tons during the third quarter of 1992. Import prices of skimmed milk powder were higher during the third quarter than in the corresponding quarter of 1991. Import prices of skimmed milk powder for animal feed were 5 per cent higher in the third quarter of 1992 than in the previous quarter, and were 30 per cent higher in comparison with the third quarter of 1991. Import prices of skimmed milk powder for human consumption in the third quarter of 1992 were unchanged in comparison to the previous quarter and 5 per cent higher in comparison with the third quarter of 1991.

58. Because of the rising production of milk for processing, the LIPC did not import butter in the first half of 1992. Imports of butter during the third quarter of 1992 were only 531 tons, a decrease of 80 per cent in comparison to the third quarter of 1991. The import price of butter in the third quarter of 1992 was unchanged from the previous quarter, but was 20 per cent higher than the third quarter of 1991.

59. Imports of both natural and processed cheeses increased. Processed cheese imports increased by 31.5 per cent in the third quarter of 1992, partly due to the strong demand for spread cheese. Imports of natural cheeses increased by 8 per cent over the same period. Imports of natural cheeses for preparing shredded cheese for pizza were increasing sharply. Import prices for both natural and processed cheeses increased in the third quarter in comparison to the previous quarter.

Australia

60. Australian milk production to date in 1992/93 exceeded that of the corresponding period for 1991/92. All States reported increases. Milk production for 1992/93 was estimated to be around 7,000 million litres. Favourable seasonal conditions had been the key factor in the production increase.

61. Cheese production in 1992/93 was expected to be slightly less than in 1991/92, reflecting lower relative returns and limited export opportunities. Forecast cheese production was 195,000 tonnes, compared with 197,400 tonnes in 1991/92. Export prospects for cheese remained firm, at best, for 1992/93. The growth in Japanese import demand had eased in line with increased Japanese milk production and the downturn in the Japanese economy. Cheese exports were forecast to be 65,000 tonnes for 1992/93, compared with 66,400 tonnes in 1991/92. Domestic sales of cheese were expected to be 125,000 tonnes in 1992/93, compared with 123,100 tonnes in 1991/92.

62. With increased manufacturing milk available, butter production was now expected to be around 125,000 tonnes in 1992/93, compared with 116,000 tonnes in 1991/92. Manufacturers' decisions to increase butter production, notwithstanding the pessimistic export market outlook, were due to the better relative returns for skimmed milk powder. The export outlook for butter was very pessimistic with high stock levels likely to remain throughout 1992/93. Butter exports were estimated at 18,600 tonnes in 1992/93, compared with 21,000 tonnes in 1991/92. Domestic butter sales in 1992/93 were forecast to be similar to the 1992/92 levels 50,000 tonnes.

63. Skimmed milk powder (SMP) production, including butter milk powder (BMP), was forecast to increase to 172,000 tonnes in 1992/93, compared to 149,000 tonnes in 1991/92. The export outlook for SMP/BMP remained firm. SMP/BMP exports were estimated to be 135,000 tonnes in 1992/93, compared with 121,200 tonnes in 1991/92. Domestic sales of SMP/BMP were forecast to remain in line with 1991/92 sales at around 36,000 tonnes.

64. Whole milk powder (WMP) production in 1992/93 was expected to be similar to 1991/92 levels of 70,000 tonnes. The export outlook for WMP remained firm. WMP exports were estimated at 58,000 tonnes for 1992/93, compared with 54,800 tonnes in 1991/92. Domestic sales of WMP were forecast to fall slightly to 11,000 tonnes in 1992/93, compared with sales of 12,200 tonnes in 1991/92.

65. The world market situation had not changed significantly since the last meeting. Butter and anhydrous milk fat (AMF) prices remained depressed and prices for other dairy products were generally firm. Key factors influencing the market had been the movement of the United States' dollar, the increase and subsequent reduction of EC refunds, and continuous stagnant demand in key traditional markets. The current international price structure was expected to continue into 1993, with demand prospects for most products remaining reasonably firm. One exception was the butterfat market which remained subject to ongoing and well known risk factors as well as the possibility of significant ad hoc exports from North America at a time of low import demand.

66. Prices for butter and AMF remained around their respective IDA minima. There were unconfirmed reports of sales below IDA minima and of "twinning" deals where AMF/butter was sold jointly with SMP, and below minimum prices for butter/AMF, were concealed by the price average.

67. In late November 1992, United States' butter stocks stood at 165,728 tonnes, around 24 per cent lower than at the same time in 1991. Lower stock levels reflected exports to Russia of over 51,000 tonnes in 1992. Commercial use of butter in the United States had remained relatively flat, despite a 22 per cent reduction in the butter support price in 1992. In late November, EC butter stocks remained significant at around 289,000 tonnes. Another key factor in the ongoing weakness in international butter and AMF prices remained the difficult situation in East and Central Europe and in particular the former Soviet republics. Indications were that butter prices would remain weak, at least in the medium term.

68. Skimmed milk powder was currently trading in the region of US\$1,850 per tonne. The market for SMP remained firm. SMP was not included in the EC export refund increases of 24 October. Increased SMP exports by the EC, primarily to Mexico, had led to firmer EC internal prices. This had been assisted by the fact that prefixed SMP refund rates were about to expire, which would reduce available refunds by ECU 50 per tonne. Total EC SMP stocks were currently around 200,000 tonnes compared to total opening stocks for 1992 of 414,000 tonnes. Current United States Government stocks were only 2,000 tonnes compared with over 62,000 tonnes in November 1991.

69. Demand in the international milk powders market was more robust and less dependent on any one market than butter. There were major import markets in all regions including Algeria, Morocco, Mexico, Venezuela, Brazil, the Middle East, and Asian markets such as Japan and the Philippines. Buttermilk powder prices were now in the region of US\$1,500 per tonne, or US\$300 per tonne above the IDA minimum.

70. Whole milk powder prices were in line with SMP prices in the range of US\$1,800-US\$1,900 per tonne, although demand for WMP had not been as strong as for SMP in recent months. EC spot offers had been as low as US\$1,700 per tonne because of prefixing following the large export refund increase on 24 October. However, these indicative European powder prices related to only limited volumes of product since export availability of fresh EC WMP was at a seasonal low. Nevertheless, this prefixing was expected to have some dampening effect on WMP prices until mid-1993. Future demand prospects for WMP were mixed. Algeria, Venezuela and the former Soviet republics, key markets for WMP, still had serious internal difficulties. Counteracting these difficulties, expectations were for continued demand growth in South East Asia, sustained demand in Mexico and reasonably good prospects for growth in imports in North Asia.

71. Cheese prices had steadily increased over recent months and were anticipated to remain firm. Cheddar was currently trading at around US\$1,900 per tonne. The growth in international demand for cheese reflected a number of factors including continued growth in per capita consumption in major Western economies, particularly for reduced fat and fresh varieties; a generally steady increase in consumption in Asian markets and renewed growth in demand in Middle Eastern and North African markets. EC cheese production had steadily increased this year but commercial demand had also shown strength. Similarly, in the United States the 6 per cent growth in cheese production in the first three quarters of 1992 had been matched by growth in domestic sales.

72. Imports of cheese in the key Japanese market had also been increasing in 1992. This increase had occurred notwithstanding the adverse impact of the Japanese economic downturn on demand from the food service industry. There had been increased demand for processed products containing cheese. Demand from other Asian markets had also been steadily increasing in line with a gradual increase in per capita consumption and greater willingness to embrace Western style foods. The overall prospects for international cheese prices remained firm with commercial demand expected to maintain its steady upward trend in the coming year.

73. The present range of export prices were:

Butter	US\$1,350 per tonne
Butter oil	US\$1,625 per tonne
Skimmed milk powder	US\$1,850 per tonne
Whole milk powder	US\$1,850-US\$1,900 per tonne
Cheese	US\$1,900 per tonne

Hungary

74. There were no fundamental changes in the dairy sector in Hungary during the third quarter of 1992. Owing to the steady decline in consumption and exports, the number of dairy cows continued to fall. Whereas the number of dairy cows was 660,000 at 30 September 1988, the level dropped to 645,000 at the end of September 1989, 635,000 at the end of September 1990, and 586,000 on 30 September 1991. At the end of September 1992, the number of cows totalled 518,000, 12 per cent lower than the previous year's level and 4 per cent below that at the end of the first half of 1992. This was primarily the result of the slaughter premium system. Milk deliveries to dairies had followed a somewhat different trend: deliveries during the third quarter of 1992 amounted to 450 million litres, a drop of 2.4 per cent compared with the same period last year, but slightly higher than at the end of 1991. After a 15 per cent drop in the last quarter of 1991, milk deliveries increased by 1.2 per cent in the first quarter of 1992, reaching 400 million litres, and by 6.25 per cent in the second quarter, to 425 million litres.

75. With regard to specific products, skimmed milk powder production and consumption recovered slightly but remained below the corresponding volume of the previous year. Skimmed milk powder production increased by 29 per cent in the third quarter, to 4,000 tons. However, the volume of production during the first three quarters of 1992 was 30 per cent lower than during the same period in 1991. The volume of exports reached 3,300 tons, again a recovery with respect to the first two quarters, but 17 per cent below the corresponding period in 1991. Domestic consumption did not show any sign of recovery: it amounted to only 800 tons in the third quarter, and a consumption during the first nine months of 1992 was 68 per cent that of the first nine months of 1991. In the case of whole milk powder, production declined by 600 tons in the third quarter of 1992 to a level of 2,000 tons, compared to 2,600 tons during the second quarter. On the other hand, domestic consumption improved slightly, rising from 1,800 tons in the second quarter to 2,200 tons in the third quarter of 1992. A comparison of consumption for the first nine months of 1992 with the same period in 1991 indicated that consumption had risen from 2,000 tons to 5,200 tons.

76. For butter, both production, exports and domestic consumption declined significantly in the third quarter of 1992 compared to the same quarter of 1991. Production in the third quarter of 1992 amounted to 3,200 tons compared with 5,000 tons in the corresponding period of 1991, a drop of 36 per cent. Exports declined by 60 per cent from 3,500 tons in the third quarter of 1991 to 1,400 tons in the third quarter of 1992. Domestic

consumption fell from 3,600 tons in the third quarter of 1991 to 2,800 tons in the third quarter of 1992, or nearly 22 per cent. Stocks of butter at the end of September 1992 at 1,700 tons were 21 per cent higher than a year earlier.

77. Hungarian cheese production dropped by 8.2 per cent, from 9,800 tons in the third quarter of 1991 to 9,000 tons in the third quarter of 1992. Exports also fell, by 35 per cent to 2,200 tons in the period under consideration, and consumption decreased by 6.5 per cent to 7,300 tons. Stocks of cheese at the end of September 1992, at 5,900 tons, were almost 35 per cent lower than a year earlier.

Canada

78. The Market Sharing Quota (MSQ) was further reduced in 1992/93 by 3 per cent because of the continuing decline in the demand for butterfat. As a result, it was expected that in the current dairy year or in 1993/94 Canada would switch from having a surplus in solids-non-fat to a surplus in butterfat. Requirements in solids-non-fat would then be higher than requirements in butterfat. Therefore, if the MSQ continued to be expressed in butterfat, Canada would have to import skimmed milk powder to ensure that its requirements in solids-non-fat were met. On the other hand, should the MSQ be based on solids-non-fat, Canada would have to export butterfat.

79. As a result of this situation, a committee formed by the Dairy Farmers of Canada and by the Dairy Bureau of Canada had undertaken a national consultation with Canadian producers, processors and provincial governments on possible solutions to address the upcoming challenges to the Canadian dairy industry. The Committee was expected to propose an action plan for endorsement by each national organization in early 1993.

80. Target returns to producers for industrial milk for the 1992/93 dairy year were maintained at Can\$49.76 per hectolitre of milk containing 3.6 kgs. of butterfat. To this price was added Can\$0.08 to cover the carrying charges associated with normal stocks of butter for the domestic market and a levy of Can\$0.02 as the processor's contribution to a rebate fund for food manufacturers using dairy ingredients. The final target price was thus Can\$49.86 per hectolitre.

81. The support price for skimmed milk powder remained at Can\$3.304 per kg. and the support price of butter was reduced by Can\$0.014 to Can\$5.317 per kg. because of the reduction in carrying charges.

82. At the July 1992 meeting of the Canadian Milk Supply Management Committee (CMSMC), the MSQ was set at 41.14 million hectolitres on the basis of domestic requirements of 39.50 million hectolitres plus a 4 per cent margin, but it did not include a provision for an expected further reduction of domestic requirements during the current dairy year. Based on expected domestic requirements, there would be surplus production in 1992/93 and the need for additional reductions in the size of the industrial milk quota.

83. Fluid milk consumption in 1992/93 was expected to follow the same pattern as before: sales of standard milk were forecast to fall while sales of low-fat milk were expected to increase. Demand for butter fell at a faster rate than expected (10 per cent in the 1991/92 dairy year) and was expected to fall further in the next two dairy years, albeit at a slower rate. Consumption of Cheddar cheese was expected to increase slightly in 1992/93. Consumption of speciality cheese was forecast to increase by 2 per cent for the next two dairy years.

Economic Commission for Europe (ECE)

84. The observer from the Economic Commission for Europe informed the Committees that, in the Commonwealth of Independent States (CIS), the reduction in the dairy herd and the important decline in milk yields had led to a related fall in milk output by about 15 per cent in 1992 compared to 1991. State purchases of milk dropped even more significantly by about 24 per cent in 1992 compared to 1991. The poor feeding conditions and the general economic difficulties which impeded efficient collection, processing and distribution of milk and milk products also contributed to a deterioration of the situation in the entire dairy sector. In 1992, butter output in the CIS probably declined by about 10 per cent while cheese and milk powders production decreased by an even greater amount.

85. The Committees took note of the information provided and of comments made under this item.

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

86. The Committees had a brief discussion of an earlier proposal by New Zealand to increase the minimum prices for milk powders (DPC/PTL/W/78). New Zealand maintained that such an increase was still warranted in light of the current market situation, and indicated that it was preparing some studies in support of its proposal, for discussion at the next meetings of the Committees. Some participants also expressed concern over the low levels of market prices for butter, and the need to ensure that the IDA minimum prices were respected. The Committees agreed to revert to these matters at their next regular sessions.

Adoption of report to the Council

87. 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/28.

Date of the next meeting

88. The next regular sessions of the Committees will be held consecutively on 16 and 17 March 1993, subject to confirmation by the Secretariat.