

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

RESTRICTED
DPC/PTL/34
20 December 1993
Special Distribution

(93-2208)

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-Fifth Session

27 and 28 September 1993

Introduction

1. The three Protocol Committees held a joint session on 27 and 28 September 1993 to discuss matters relating to the operation of the Protocols.

Adoption of the agenda

2. The following agenda was adopted for the joint session:
- A. Adoption of report on the fifty-fourth 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. Oral report by the Chairman of the Protocol Committees to the Council
 - H. Date of the next meetings

Adoption of report on the fifty-fourth session

3. The report of the fifty-fourth session was adopted and distributed in document DPC/PTL/33.

Information required by the Committees

(a) Replies to Questionnaires 1 to 3

4. The Committees reviewed the replies to Questionnaires 1 to 3 in respect of the second quarter of 1993. Participants were requested to provide all the relevant information concerning the third quarter of 1993 by 10 December 1993, at the latest.

(b) Summary tables

5. The Committees took note of the summary tables based on information provided by participants in Tables A and B of the questionnaires in respect of milk fat, cheeses, skimmed milk powder (SMP) and whole milk powder (WMP) (documents DPC/PTL/W/95, DPC/PTL/W/96 and DPC/PTL/W/97). The Committees were informed that these figures would be updated as soon as more recent information became available.

(c) Other information

6. The Committees took note of the information which the Secretariat had compiled on production, trade, stocks and consumption of dairy products in the United States. This data related to the second quarter of 1993 and forecasts for the third quarter of 1993.

Transactions other than normal commercial transactions

7. The representative of the European Community informed the Committees that their food-aid programmes provided for 50,000 tons of milk powders and 5,000 tons of butter oil for 1993. For the first five months of 1993, actual deliveries amounted to 26,000 tons of milk powders and 1,000 tons of butter oil. In addition, the Community decided in August 1993 to furnish 5,000 tons of butter to Albania as food aid.

8. The representative of New Zealand expressed concern about the need to ensure that food aid and concessional sales do not adversely affect commercial sales opportunities. He informed the Committees that in the first eight months of 1993, concessional sales and food-aid commitments of dairy products made by the United States to countries of the former Soviet Union included 72,000 tons of butter, 9,800 tons of butter oil, 8,300 tons of WMP, 5,300 tons of skimmed milk powder, 2,000 tons of infant formula powder and 600 tons of evaporated milk.

Sales under derogations

9. The Committee of the Protocol Regarding Certain Milk Powders noted that no new information had been received regarding operations under Article 3:5 of the Protocol.

10. The Committee of the Protocol Regarding Milk Fat took note of notifications furnished by Poland (DPC/PTL/W/98), Finland (DPC/PTL/W/99) and Hungary (DPC/PTL/W/100) pursuant to the Decision taken on 22 June 1993 under Article 7:1 of the Protocol (DPC/PTL/32).

11. The representatives of the European Community and New Zealand informed the Committee that to date they had made no sales in accordance with the Decision of 22 June 1993. The representative of New Zealand reiterated the concern of his country with respect to continuing difficulties in the former Soviet Union market and to food-aid deliveries and concessional sales by the United States. New Zealand hoped to be able to conclude a contract in accordance with the provisions of this Decision.

12. The Committee of the Protocol Regarding Certain Cheeses took note of the information furnished by New Zealand regarding operations under Article 7:2 of the Protocol (DPC/PTL/W/101).

Review of the market situation

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

European Community

14. The most important development in the EC dairy market in 1993 has been the implementation of the quota system in Greece, Italy and Spain. A further significant development in the EC dairy market in 1993 has been the fall in skimmed milk powder (SMP) prices from about 115 per cent of the intervention price in the spring to 96 per cent in recent weeks. This was a managed development brought about by reductions in the levels of aid and export refunds in order to avoid decreases in consumption due to high prices. About 11,000 tons of SMP were offered to the intervention agencies in August. In contrast, there were no intervention purchases during 1992. Milk deliveries fell by 1.6 per cent in 1992 to 103.7 million tons.

15. Data on the EC dairy sector for 1992, indicating the change from the previous year in percentage terms and estimates for 1993, are as follows:

		<u>1992</u>
Cow numbers (December)	'000 head	21,888
Milk deliveries	'000 tons	103,688
SMP production	'000 tons	1,165

16. For the first seven months of 1993, and for the period April to July 1993, the comparison with 1992 is as follows:

	<u>Percentage change</u>	
	<u>Jan. to July 1993/1992</u>	<u>April to July 1993/1992</u>
Milk deliveries	- 0.1	- 1.3
Production		
Butter	same level	+ 2.5
Skimmed milk powder	+ 8.0	+ 8.0
Other milk powders (including whole milk powder)	- 4.0	- 4.0
Cheese	same level	same level

In the period April to July 1993, deliveries for the EC are 7 per cent below quota. In the latter part of 1993 and in the first quarter of 1994, producers can be expected to increase deliveries to meet their

quotas. However, it is unlikely that the New German Länder and Portugal will be able to meet their quotas.

17. Consumption of liquid milk and fresh products continued to grow by 1 per cent per year. Cheese consumption also increased by 1 to 2 per cent per year.

18. The full impact of the institutional price changes implemented in the milk sector on 1 July 1993 have not yet been fully reflected in producer or product prices. However, it appears that distributors and retailers are seeking price reductions corresponding to a 2.8 per cent fall in milk prices and a 4.2 per cent fall in the butter intervention price. These price changes will only be passed on to producers in 1994, although some of the decisions were taken in June 1992.

19. Market management measures were taken in 1993 in response to market and institutional price trends and to changes in the value of the US dollar. In the case of SMP, aid levels and export refunds were reduced to avoid excessive price levels on the internal market. Aid levels and refunds were also modified for butter, to take account of the reduction in the intervention price and to ensure respect of the GATT minimum prices.

20. The aid level on butter intended for the pastry industry was reduced by ECU 12.45/100 kgs. to ECU 131/100 kgs. of butter (82 per cent fat content) in May/June 1993. The pastry and ice-cream scheme is the most important of the butter schemes for internal disposal taking about 356,000 tons in 1992. The volume up to 15 September 1993 was 296,000 tons compared with 259,000 tons during the same period in 1992 - an increase of 14 per cent. However, despite these internal disposal measures overall butter consumption is falling by 2.5 to 3 per cent per year.

21. The aid level on skimmed milk used in the manufacture of casein was reduced on 1 March 1993 from ECU 7 to ECU 6.3/100 kgs. The aid level on SMP incorporated into calf feed was reduced on 17 August 1992 from ECU 65 to ECU 60/100 kgs. Both levels of aid were reduced by the monetary reduction co-efficient on 1 July 1993 to ECU 6.22/100 kgs. for liquid skimmed milk used in casein manufacture and to ECU 59/100 kgs. for SMP used in calf feed.

22. The volume of SMP used for the manufacture of casein and in calf feed has fallen substantially in 1993 compared with 1992. In the January to July period, liquid skimmed milk used for casein manufacture fell by 34 per cent to 2 million tons. The use of liquid skimmed milk, in animal feed also fell, to 208,000 tons (- 29 per cent).

23. Export refunds on both butter and SMP were reduced in 1993. The SMP refund was reduced on 26 March 1993 from ECU 65 to ECU 60/100 kgs. The butter refund was reduced from ECU 171/100kgs. at the beginning of the year to ECU 160/100 kgs. on 1 July 1993, in line with the decrease in the intervention price.

24. The market price for SMP has fallen from about 115 per cent of the intervention price in the spring to about 96 per cent in September 1993. In the same period, the butter price went from about 90 per cent of the intervention price (ECU 264/100 kgs.) to about 93 per cent of the intervention price (ECU 261/100 kgs.).

25. Intervention purchases in 1993 up to 15 September, amounted to 28,600 tons of butter and 11,000 tons of SMP. The stock levels are as follows ('000):

		<u>16.9.1993</u>	<u>10.9.1992</u>	<u>1993/1992</u>
Butter	Public available	158	161	- 2 %
	Private	149	184	- 19 %
Skimmed milk powder	Public	38	72	- 47 %
Cheese	Public	11	7	+ 57 %
	Private	129	187	- 31 %

26. Data available on dairy exports in 1993 compared with that for the corresponding periods in 1992 indicate an increase for fresh products (+ 1.7 per cent), WMP (+ 56 per cent), butter (+ 2.5 per cent), butter oil (+ 39.5 per cent), cheese (+ 15.5 per cent) and condensed milk (+ 11 per cent). A decrease is recorded for SMP (- 56.9 per cent) and casein and caseinates (- 28.1 per cent). Five hundred tons of intervention butter were sold for export in September 1993.

27. The Community's calculated f.o.b. prices per ton are as follows:

Butter	US\$1,370 to US\$1,550
Butter oil	US\$1,675 to US\$1,750
Skimmed milk powder	US\$1,500 to US\$1,650
Whole milk powder	US\$1,450 to US\$1,650
Cheese	US\$1,850 to US\$2,000

28. Little change has occurred in butter and butter oil markets, which remain depressed. Milk powder prices have fallen due to offers at low prices from certain Eastern European countries. The European Community is concerned about the negative effects on prices of the United States Dairy Export Incentive Program and about increased deliveries of milk in certain IDA participating countries and non-participating countries.

New Zealand

29. The 1993/94 season began under relatively favourable climatic conditions. It is expected that production this season could increase by an amount similar to that of last season. However, the timing of the seasonal milk production peak and weather conditions experienced through the remainder of the season remain critical. Production trends are primarily determined by the following factors: climatic variation; returns available from other land uses relative to dairy production; on-farm pasture and herd management regimes.

30. Expectations for milk products remain in line with previous seasons. Some 260,000 metric tons of WMP was produced and exported in the year ended June 1993. The recent emphasis on growth of WMP is expected to continue. Constraints in optimal production levels exist, however, due to processing capacities and the timing of seasonal milk flows. Production levels are ultimately determined by actual demand, therefore final volume remains dependent upon eventual sales opportunities, which have been lower than expected this season. Further growth in cheese production is also expected in 1993/94. In the year ending June 1993, cheese production was to 135,500 metric tons. Export volumes grew further to just over 121,000 metric tons for the same period. Indications are that export growth

for cheese and WMP will continue, in line with the modest overall expansion in international market opportunities.

31. WMP and cheese production are expanding as processors seek to reduce the volume of butter and butter oil production. Production of butter and butter oil in the year ending June 1993 was some 170,000 metric tons and 45,000 metric tons, respectively; a reduction of around 8 per cent in butter equivalent terms over the previous year.

32. Production of SMP and casein remains aligned with last season's production. SMP production continues to drop gradually with just a little more than 100,000 metric tons being produced in the year ending June 1993. Casein volumes have remained constant at around 65,000 metric tons annually over the past three years.

33. With the exception of cheese prices, there has been downward price pressure on all other major production categories. Three major influences have contributed to the overall weakened position: soft domestic market conditions in the northern hemisphere; a general strengthening of the US dollar against European currencies; and, currency instability. In the case of butter and butter oil, the absence of demand has ensured that the weak position since the beginning of 1993 has prevailed. Currency instability and deterioration in terms of trade have led to lower export price quotations. This, coupled with a strengthening New Zealand dollar, has resulted in lower returns for New Zealand production. These negative factors have only been marginally offset by the reduction in EC export restitutions made in June. More positively, a recent gradual and positive shift in European domestic prices has seen prices firm slightly throughout September. Prices for butter and butter oil have remained close to the GATT minimum through the second and third quarters. This reflects the continued economic and political uncertainty which has contributed to reduced demand in the former Soviet Union. The weak European market conditions have also led to softer market conditions for SMP. The negative effect of exchange rate movements has also been a significant factor. Prices are currently in the range between US\$1,500-US\$1,600 per metric ton f.o.b. The above conditions have equally affected WMP sales, however, prices have weakened further due to lower than expected demand. Prices throughout the third quarter to date have ranged between US\$1,500-US\$1,600 per metric ton f.o.b. On the other hand, cheese prices have remained firm due to good demand, firm domestic prices and a significant positive contribution from the 5 per cent "across-the-board" reduction in European export refunds, as of late June. Current prices for cheese are in the range of US\$1,850-US\$2,150 per metric ton f.o.b.

Japan

34. Production of raw milk during the second quarter of 1993 increased by 2 per cent compared to the corresponding period of 1992. Since August 1991, monthly raw milk production has shown an increase compared to the corresponding period in the previous year. During the second quarter of this year, raw milk production increased in the main production region, Hokkaido, by 1.8 per cent compared to the same period of the previous year, and production increased by 2.1 per cent in other regions.

35. The demand for drinking milk during the second quarter of this year decreased by 0.8 per cent due to the recent economic slowdown and to unfavourable weather conditions. This decrease in demand for drinking milk, coupled with the increase in the output of raw milk, resulted in a 6.2 per cent increase in raw milk available for producing butter and SMP during the second quarter of 1993 compared to the same period of 1992. Therefore, butter and SMP production increased sharply (by 20.7 per cent and by 11.8 per cent, respectively). Due to the economic slowdown and to unfavourable weather conditions during this summer, and to the increase of imported ice-cream, demand for dairy products such as butter and cream has decreased. Consequently, stocks of dairy products, and

particularly those of butter, increased sharply. In order to cope with these stocks, the slaughter of dairy cows and increasing raw milk fed to calves are being promoted to restrict the production of domestic dairy products. Also, the milk production target quantity for fiscal year 1993 was amended in September 1993 from 100.9 per cent in the last fiscal year to 98.5 per cent this year. Furthermore, a private storage aid programme for butter started in August 1993.

36. Production of natural cheese and processed cheese during the second quarter of 1993 increased by 9.5 per cent compared to that of the same period of 1992, due in part to the continuing strong demand.

37. Imports of SMP during the second quarter of 1993 decreased by 48.9 per cent to 19,000 metric tons compared to the corresponding period of 1992. This is mainly because during the previous year the Livestock Industry Promotion Corporation (LIPC) imported 16,000 metric tons of SMP from April to June in order to counteract the tight demand-supply conditions. Since then, SMP has not been imported by the LIPC due to the recent demand and supply conditions. Imports of SMP exempt from the LIPC operations during the second quarter of 1993 decreased by 10.7 per cent compared to the corresponding period of 1992, due to a decrease in imports for animal feed purposes. In the second quarter of 1993, the import price of SMP for human consumption fell by 2.8 per cent, and that for animal feed by 1.2 per cent, over the first quarter of this year.

38. The LIPC has not imported butter since January 1992 because the market situation of butter was not predicted to be tight due to increased production and lower demand. Imports of butter during the second quarter of 1993 amounted to only 800 metric tons. The import prices of butter during the second quarter of 1993 have risen by 7.7 per cent over the first quarter of this year.

39. The import of natural cheese and processed cheese during the second quarter of 1993 increased, respectively, by 1.5 per cent and by 12 per cent compared to the first quarter of this year. During the second quarter of 1993, the import prices of natural cheese and processed cheese have risen, respectively, by 2 per cent and by 5.9 per cent compared to the first quarter of this year.

Bulgaria

40. The difficulties of the restructuring of the Bulgarian agricultural sector, along with the land reform and privatization process, have a direct impact on overall developments in the dairy sector. As export subsidies are no longer maintained, and there are virtually no production subsidies for the agricultural sector, both production and exports of milk and dairy products are drastically curtailed in comparison to the 1989-1990 period. No reversal of the trend of falling milk production has yet been observed.

41. The trend for cheese production is the same. For the second quarter of 1993, the quantity of cheeses produced in Bulgaria totalled 23,800 tons. This represents less than half of the 1990 production and about 74 per cent of the 1992 production for the same period of the year. Imports and exports of cheeses have fallen for the second quarter of 1993. Exports of cheeses for the second quarter of 1993 (in terms of quantity) represent some 20 per cent of exports for same period in 1992. Bulgaria exported to the United States, Macedonia, Austria, Germany, Lebanon and Greece. The average export price was US\$2,707 per ton. During the second quarter of 1993, Bulgaria imported 300 tons of cheeses from Lithuania, France, Estonia and Poland.

42. No production of SMP or buttermilk powder was reported for the period under consideration. Seven hundred tons of SMP were imported from Poland, the CIS, France, Sweden, Macedonia, Greece, Hungary and Croatia. No exports and imports of buttermilk powder occurred. With regard to WMP,

400 tons were produced during the second quarter of 1993, and 400 tons were imported from Lithuania, Sweden, the CIS, Germany, Poland and Greece. No exports were registered during the period under consideration.

43. During the second quarter of 1993, butter production amounted to 1,300 tons. This is 17.5 per cent of the 1990 butter production for the same period of the year and 43 per cent of the corresponding 1992 production. No exports registered during second quarter, while 500 tons were imported from Germany, France, the Czech Republic and the Slovak Republic and Estonia.

Australia

44. National milk production for the 1992-93 season totalled 7,327 million litres, up 8.4 per cent on 1991-92, and 14.4 per cent higher than in 1990-91. This increase in production is mainly due to increasing cow productivity as a result of favourable seasonal conditions in the main producing areas, lower supplementary feed prices, higher farm fodder conservation, generally excellent herd health, and strong international prices. Increased production was mainly channelled into exports. Cow numbers remain steady at around 1.6 million, while the number of farms are declining.

45. Market milk sales grew by 2 per cent in 1992-93. This has meant a 9 per cent increase in the volume of milk available for manufacturing during 1992-93, and an increase in production of all major products.

46. Butter production increased by 17 per cent on last year's figures, and this, in conjunction with depressed international demand, has resulted in increases in manufacturer stocks on hand. Most manufacturers adopted assertive domestic marketing strategies and domestic sales of butter products rose.

47. In line with international developments, there has been a trend towards increased cheese production. Domestic sales growth was mainly in Cheddar and shred types with an underlying trend towards lower fat content products. Shredded and sliced cheeses now account for around 33 per cent of total sales. Increased product variety, improved quality and greater consumer awareness has resulted in Australia's share of the specialty cheese market increasing. Australian products now account for approximately 86 per cent of total domestic cheese sales.

48. Production of both skimmed milk and whole milk powders increased during 1992-93. Food ingredient demand for powders is mainly for bakery and confectionery applications. Under a free-trade arrangement with New Zealand, milk powder (and cheese) imports have risen in recent years.

49. In the 1993-94 season so far, seasonal conditions in major producing areas have been favourable, with recent widespread rains. Australia's national milk production for 1993-94 is forecast to be 7,300 million litres, similar to the near record 7,327 million litres produced in 1992-93. Seasonal and market conditions will determine the final product mix.

50. International butter and anhydrous milk fat (AMF) prices remain depressed and milk powder prices have declined in recent months. Cheese prices are generally remaining stable. The butterfats market continues to be problematic with a structural demand problem exacerbated by significant ad hoc exports from the United States. (In 1992, United States exports of butterfat in butter equivalent amounted to some 125,000 tons.) While cheese prices are expected to remain stable in coming months, there is the possibility of further downward pressure on milk powders prices. Currency factors have had an important influence on dairy export prices in recent months. The uncertainty generated by the collapse of the EC's exchange rate mechanism in early August has also added to market volatility.

51. The international butter and AMF market remains flat with prices around their respective IDA minima of US\$1,350 and US\$1,650 per ton. Asian buyers appear to be well stocked, and the Japanese Government has announced an emergency subsidy arrangement for butter storage in response to an unexpected build-up of stocks due to a combination of increased production and reduced demand. EC public butter stocks continue to fall, with the volumes of product sold into intervention remaining low. Public intervention stocks currently stand at 159 tons, almost 2 per cent down on the level twelve months ago. After rising to a peak of 152,798 tons in August, short term private storage aid stocks fell by 4,000 tons in early September as producers began to release product onto the market in the lead up to the Christmas demand peak. United States' public butter stocks fell sharply in July as stocks were released for food-aid shipments to FSU countries, and stood at 122,500 tons on 10 September, their lowest level for three years. There have been no new sales of product in recent weeks. A key factor in the ongoing weakness in international butter/AMF prices is the general shortage of hard currency in FSU countries. Commercial demand from other important markets such as Algeria and Japan has been adversely affected by domestic economic conditions in these countries. Butter prices will continue to be under pressure for the foreseeable future.

52. SMP is currently trading in the range of US\$1,400-1,500 per ton. This is US\$200-300 above the IDA minimum price and represents a decline of US\$150-250 per ton since the June IDA meeting. The decline occurred as a result of a combination of lower EC wholesale prices, currency movements and a weakness in international demand. Production of SMP in the EC in 1993 has been running well ahead of 1992, due, in part, to the policy-induced decline in casein manufacture. There was a surge of sales of SMP into intervention before the closing deadline for purchases of 31 August. Around 10,000 tons of SMP was sold into stock, with Germany the major country of origin. With SMP intervention now closed until 1994, public stocks stand at 35,000 tons. Despite the close in intervention, wholesale SMP prices have recovered slightly in September. Some elements behind this market firming include an expected improvement in the EC veal market in the European autumn, and the seasonal slowdown in fresh production. In the United States, SMP production remains well ahead of 1992 levels. On a year to date basis, SMP production is up 6 per cent so far in 1993. Public stocks, however, remain low at only 7,600 tons in September. Indications are that SMP prices may come under further downward pressure in the Northern Hemisphere spring of 1994 as the result of a possible build-up of EC stocks. Buttermilk powder prices are currently in the range of US\$1,250-1,300 per ton.

53. WMP prices are currently in the range of US\$1,350-1,450 per ton, or US\$100-200 per ton above the IDA minimum price. This represents a decline of US\$200-300 per ton since June. The fact that WMP prices are lower than SMP prices reflects the lower value of fat relative to protein.

54. Cheese prices have generally remained steady over recent months as the key Japanese market, despite economic difficulties and increased domestic cheese production, holds up reasonably well. Bulk Cheddar is currently trading in the range of US\$1,800-1,900 per ton or between US\$300-400 above the IDA minimum price. This price range has remained unchanged since June. The overall prospects for international cheese prices remain firm, with commercial demand expected to be maintained throughout the remainder of 1993.

Argentina

55. Production data for the first half of 1993 indicate no important changes for the pilot products as compared to the first half of 1992. Imports of cheeses and milk powders decreased substantially in the first half of 1993 due mainly to countervailing duties imposed on imports of these products in October 1992. Imports of butter were negligible in the period under consideration. Exports of milk powders, which had been low in 1992, resumed in the first half of 1993. These amounted to 6,000 tons for SMP and to 2,400 tons for WMP. Imports of cheese in this period reached 1,750 tons compared

to 1,350 tons imported in the first half of 1992. Domestic consumption decreased for milk powders and butter but registered a slight increase for cheeses. Stocks of major products at the end of June 1993 were substantially lower than their level at the beginning of the year.

Switzerland

56. Milk deliveries increased by 1.5 per cent in the first eight months of 1993, to 2.1 million tons. The situation for SMP is characterized by the stability of production in the first half of 1993 compared to the corresponding period of 1992, and by normal stocks levels at the end of June 1993. Production and consumption of butter also remained stable in the period under consideration. Imports of butter in that period at 700 tons were less than half of the 1,500 tons imported in the first half of 1992. Stocks at the end of June 1993 increased to 6,400 tons compared to 5,500 tons at the end of March 1993. Cheese production increased by 4.4 per cent to 68,800 tons during the first half of 1993. Exports decreased by 8.5 per cent in that period to 27,900 tons, while imports registered an increase by 15.2 per cent to 14,400 tons. Cheese consumption increased by 4.1 per cent to 50,500 tons and stocks at the end of June 1993 increased to 26,000 tons, compared to 22,800 tons at the beginning of the year.

Sweden

57. Milk deliveries to dairies increased by 6 per cent in the first eight months of 1993 compared to the corresponding period of 1992. For 1993, milk deliveries are expected to increase by 5.3 per cent. Total numbers of dairy cows are stable, amounting to 524,500 head in June 1993, compared to 526,000 head in June 1992.

58. Production of SMP increased to 12,600 tons in the second quarter of 1993, compared to 10,500 tons in the same period of 1992. The increase has continued also in the third quarter of this year and total production of SMP in 1993 is forecast at 40,000 tons. Exports increased during the second quarter of 1993, and total exports of SMP this year are forecast to reach 9 to 10,000 tons compared to 4,700 tons in 1992. Stocks also increased during the second quarter but 4,200 tons at the end of June 1993 are still below last year's level of 5,200 tons at the end of the second quarter. The average Swedish export price for SMP in early September 1993 was US\$1,500 per ton f.o.b.

59. As a result of the increased milk production, butter production is increasing in Sweden. In the second quarter of 1993, butter production amounted to 11,700 tons compared to 10,900 in the corresponding period of 1992. Exports of butter increased during the second quarter of 1993, and total exports of butter in 1993 are forecast at 20,000 tons compared to 16,700 tons in 1992. Stocks at the end of the second quarter were above the stock level of the previous years but seem to have decreased during the third quarter. The average Swedish export prices for butter in early September 1993 was US\$1,350 per ton f.o.b.

60. Swedish cheese production increased slightly in the second quarter of 1993, and amounted to 30,700 tons compared to 29,000 tons during the same quarter of 1992. For 1993, production at 112,800 tons is forecast to be slightly above the previous year's level of 110,400 tons. Exports of cheese decreased during the second quarter of 1993 and amounted to 300 tons compared to 500 tons during the same quarter in 1992. Stocks at the end of the second quarter of 1993 were slightly below the stock level at end the of the same quarter last year (39,400 tons compared to 39,600 tons).

Norway

61. Milk deliveries remained stable in the first six months of 1993 compared to the corresponding period of 1992. For the whole year of 1993, the previous forecast was for a decrease by 0.5 per cent in milk deliveries. However, revised forecasts now show that deliveries might remain stable at 1.87 million tons as the government's scheme for buying back milk production quotas has not achieved the expected response.

62. During the first half of 1993, butter production was at the same level as last year and amounted to 9,259 tons. Domestic consumption of butter is down this year by 6 per cent due to a shift in consumption from pure butter to mixtures of butter and margarine. As usual, there have been no imports of butter in the first half of 1993. Norway has so far this year exported 3,621 tons of butter through agents in Switzerland.

63. Norwegian cheese production was somewhat up in the first half of 1993, and amounted to 44,436 metric tons compared to 43,703 tons during the same period last year. For 1993, it is expected that total production will remain at the same level as last year. Cheese consumption has increased by 4 per cent so far this year, and this trend is expected to continue for the remainder of the year. Imports of cheese in the first six months of 1993 have decreased by 3 per cent compared to the first half of 1992. Exports are down 9 per cent compared to last year. The main reason is a reduction in exports to Sweden. Norway has so far exported 12,758 tons of cheese, mainly to the EC, Japan and the United States.

64. The market situation for SMP is normal. Norway exported 2,653 tons of SMP during the first half of 1993. There have been no substantial imports of milk powders during the first six months of 1993.

Finland

65. The representative of Finland informed the Committees that the reply to Questionnaire 5, recently submitted to the Secretariat, contained information on domestic policies and trade measures. This reply will soon be distributed as document DPC/INV/5/Add.7/Suppl.1.

66. Milk deliveries during January-July 1993 were 0.5 per cent lower than in the corresponding period of 1992. Estimates for 1993 indicate total deliveries of 2.24 billion litres. Deliveries in 1994 are forecast to be between 2.23 and 2.25 billion litres.

67. Butter production in the first half of 1993 was 0.6 per cent more than during the corresponding period of 1992. However, the annual production level is expected to decline by 2.6 per cent to 56,000 tons. Butter consumption in the first half increased by 2.8 per cent after having decreased by 6.5 per cent during the same period of 1992. The estimate for annual consumption is 38,700 tons, an increase by 0.5 per cent over 1992. Finland has exported some 7,700 tons of butter in January-July 1993. Butter stocks in August were 11,000 tons. Estimates for butter exports in 1993 are 13,500 tons. Forecasts for 1994 are for production of 56,000 tons, consumption of 39,000 tons and exports of 16,000 tons. Cheese production in the first six months of 1993 was 53,000 tons, a drop of 8.6 per cent. The estimate for the whole year is for 87,000 tons. Annual consumption in 1993 is estimated to be 70,000 tons. Exports in January-July were 13,100 tons (- 8.9 per cent) and the estimated total exports for 1993 are 24,000 tons. Stocks in July were 10,400 tons. In 1994, the forecasts are for production of 85,000 tons, consumption of 70,000 tons and exports of 25,000 tons.

68. Skimmed milk production in January-July 1993 was 10,100 tons (+ 18.1 per cent). Exports in this period were 1,900 tons and stocks in July were 6,500 tons. Total production for 1993 is estimated to be 16,500 tons, consumption 14,000 tons and exports 2,000 tons. Production of WMP was only 375 tons (- 85 per cent) in January-July 1993. Estimated production for 1993 is of 700 tons, consumption of 600 tons and exports of 300 tons. Stocks in July were 500 tons. Estimates for 1994 are for production of 700 tons, consumption of 600 tons and exports of 300 tons.

South Africa

69. Milk production has fallen since 1990, and this trend seems likely to continue at least in the short term. Expected milk production of 1.92 million tons in 1993/94 is 2 per cent lower than production in 1992/93. Consumption of SMP is expected to fall in line with a long-term trend, while consumption of WMP is likely to increase in the current season. With regard to milk fats, stocks of butter are low at present.

Romania

70. Due to the drop in the number of dairy cattle and to decreasing yields, production of milk and dairy products has fallen in Romania. Consumption has also registered a downward trend, largely as a result of the drop in production and purchasing power. However, the downward trend in production of milk and dairy products has recently been reversed for temporary reasons. Like production, consumption of milk and dairy products seems to have increased during the second quarter of 1993. Prohibitions on exports of butter are maintained while prohibitions on exports of milk and milk powders have been lifted as of 1 June 1993. Imports of milk powders and butter have registered substantial increases in the first half of 1993 compared to the corresponding period of 1992. Stocks at the end of the second quarter have also increased, but they were at very low levels at the beginning of the quarter.

Poland

71. Milk production declined to 12.8 billion litres in 1992. It is forecast that milk production in 1993 will further decrease to 12 billion litres, a drop of 6.2 per cent compared to 1992. Milk deliveries totalled 6.8 billion litres in 1992 and are expected to decline to 6.5 billion litres in 1993. Milk deliveries in the second quarter of 1993 dropped by 9 per cent compared with the corresponding period of 1992.

72. Production of milk powders remained stable in the second quarter of 1993 compared to the corresponding quarter of 1992. There was a slight increase in Cheddar cheese production while that of butter fell by 8 per cent compared to the second quarter of 1992. Imports and exports of butter and Cheddar cheese increased in the period under review, while exports of SMP remained stable.

73. The average export prices in the second quarter were as follows (per ton f.o.b.):

Skimmed milk powder	US\$1,527
Whole milk powder	US\$1,658
Cheddar cheese	US\$2,424
Butter	US\$1,416

74. Pursuant to the decision taken by the Committee of the Protocol Regarding Milk Fat on 22 June 1993 under Article 7:1 of the Protocol, Poland notified a contract for the sale of 4,000 tons

of butter at US\$1,017 per ton f.o.b. to Ukraine (DPC/PTL/W/98). While the delivery was expected to be completed in August 1993, only 581 tons had been shipped until the end of that month.

Canada

75. For the 1992/93 dairy year (1 August 1992-31 July 1993), industrial milk and cream production dropped by 5 per cent compared to 1991/92 because of cuts in the Market Sharing Quota (MSQ). As regards butter, the internal market has been stabilized after several years of declining consumption by successful marketing of butter at special prices for food manufacturing use, particularly by the bakery industry. For the 1993/94 dairy year, domestic disappearance may recover to 83,000 tons (up by 2 per cent) with production around 89,000 tons. Current low stock levels imply that no further exports are foreseen. The increase by 2 per cent of the MSQ as of 1 August 1993 will help to supply food industry requirements.

76. With regard to SMP, production, domestic disappearance and exports have proved difficult to forecast but have been falling strongly. However, the 1993/94 dairy year may be off-trend and exports could be of the order of 25,000 tons compared to 17,000 tons in 1992/93.

77. In December 1992, the Canadian Government announced that agricultural subsidies were to be cut by 10 per cent for the next two years. Effective 1 August 1993, the dairy subsidies were reduced from Can\$ 6.03 to Can\$ 5.43 per hl. Butter prices were cut by 4 cents per kg. and SMP prices were increased by 16 cents per kg. The small size of the cut in the butter price may delay transmission to the retail level, whereas the SMP price increase could affect negatively domestic disappearance. However, this price increase should have no influence on export prices or trade.

Economic Commission for Europe

78. Milk production in Russia continued to decline during the first half of 1993. The dairy herd stood at 13.1 million head on 1 July 1993, corresponding to a decline of 7 per cent compared to 1 July 1992. Milk production dropped by 8 per cent during the first six months of 1993, while milk deliveries declined by 6 per cent. Butter output was 4.6 per cent down compared to the first half of 1992, and cheese production declined by about 2 per cent.

FAO

79. According to FAO forecasts, world output of milk from cows and other livestock will be 516 million tons in 1993, or 1 per cent lower than the previous year. As in 1992, the drop in world production is expected to result principally from falling output in the former USSR and Eastern Europe. Developing countries' production is forecast to rise by 2 per cent, growing from 168 million tons in 1992 to 172 million tons in 1993.

80. Amongst developing countries, the fastest growth is forecast for Asia, where production is expected to rise by 3 per cent. In India, the largest producer among developing countries, a 3 to 4 per cent expansion in output is anticipated, assisted by good pasture conditions and fodder supplies. Production is expected to be further stimulated by higher milk prices following the increased involvement of private firms in dairy processing, stemming from the easing of government regulations regarding access to the sector. In China, milk output grew 6 per cent in 1992, with a similar increase forecast for 1993. Higher feed grain prices may, however, restrain growth.

81. Further expansion is also forecast for Latin America, where production could rise by 2 per cent to reach 45 million tons. Higher producer prices, following the abolition or reduction of government

controls, combined with favourable weather conditions are forecast to stimulate production in several countries including Argentina, Chile and Ecuador. In Colombia, production is expected to recover following the drought-induced reduction, in output in 1992. Production in Brazil was 12 per cent lower in the first quarter of 1993 compared to the same period in 1992. This may stem from a fall in demand following the decontrolling of, and subsequent rise in, retail prices in 1992. In Venezuela, the high cost of imported feed is expected to continue to contribute to lower production.

82. Production amongst developing countries in Africa is forecast to remain at 11 million tons, a similar level to the previous years. While several countries continue to show steady growth in output, production amongst Southern African countries is expected to be affected by the previous year's drought which reduced herd sizes and increased feed prices. In the case of Zimbabwe, higher feed costs, combined with reduced controls on milk prices, have resulted in much higher consumer prices. Higher retail prices have produced a contraction of demand and, consequently, excess milk supplies. These have been converted into SMP and stored.

83. As regards trade, developing countries as a whole will remain net importers of dairy products. Some major importers, such as Algeria and Mexico, have already made large purchases of dairy products during 1993. In Brazil, reduced funding for government-operated feeding programmes is expected to lead to diminished imports. In Colombia, the recovery of production during 1993 led to a temporary ban on imports of liquid and powdered milk in the middle of the year. India, which for many years has been amongst the major recipients of dairy food aid in support of its "Operation Flood" project, now appears to be approaching self-sufficiency. In past years, India has exported dairy products on a small scale. Currently, there is mounting pressure to abolish the obligatory channelling of exports of dairy products through the National Dairy Development Board. Should this occur, India's exports of dairy products are likely to increase.

84. Developing countries continue to steadily increase their share of world production. The proportion of world milk output originating in developing countries has risen from 22 per cent at the end of the 1970s to 33 per cent at present. However, strong domestic demand has meant that as a group these countries are net importers of dairy products, and this situation can be expected to continue, at least in the medium term.

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

85. In conformity with Article 3:3(b) of each of the Protocols, the Committees reviewed the minimum export prices for products covered by the Protocols. The representative of New Zealand recalled that in their June 1993 communication dealing with problems in markets of the former Soviet Union (DPC/PTL/W/93), one of the options presented was an adjustment in the relationship between minimum prices entailing an increase in the minimum prices for milk powders. There was, however, no consensus at this time to make any changes in the minimum prices.

86. The New Zealand representative stated that the Decision adopted in June 1993 pursuant to Article 7:1 of the Protocol Regarding Milk Fat had eased problems in the international market for these products in the short term. However more durable solutions were needed, so in a subsequent communication presented for the September meeting (DPC/W/128), New Zealand made proposals for improvement of the operational effectiveness of the International Dairy Arrangement (IDA). New Zealand also welcomed that the Chairman of the Council would organize further informal consultations at an appropriate time. Moreover, his delegation noted with pleasure that the Chairman of the Council would communicate to the FAO Consultative Sub-Committee on Surplus Disposal the concern about the need to ensure that food aid and concessional sales do not adversely affect commercial sales opportunities. New Zealand welcomed also the decision according to which the Secretariat would

undertake a review of procedures for monitoring compliance with the minimum price provisions of the Arrangement. New Zealand looked forward to further discussions on the issues and wished to urge all participants to examine the range of options on the table carefully so that they would be ready to take decisions at an early stage.

87. The representative of Australia said that the key issue for the present meeting was the current situation of the international butterfats market. The discussions on this item made clear the concerns of several participants that this market remained depressed, and participants attempted to assess to some extent the way in which that market situation was likely to move. In Australia's view there was a structural oversupply in the world butterfats market with very low international prices both for butter and butter oil. This structural imbalance was the result of a number of factors, including changing preferences, availability of substitutes, subsidized production disposal in certain countries, the use of concessional sales and food-aid deliveries and the loss of the very important commercial market of the former Soviet Union. The participants to the Arrangement attempted to address these difficulties in June 1993 by granting a derogation. However, the discussions at the present meeting showed that those measures would not be sufficient. It was noteworthy that only a limited number of participants had been able to take advantage of that derogation opportunity to date and that did not include any of the traditionally large exporters of butterfat. Therefore, there will be a need to consider the longer-term solutions facing this particular sector of the market. Australia hoped that the communication it presented (DPC/W/127), the background paper prepared by the Secretariat (DPC/W/126) and other communications or comments made available at this meeting would assist participants to assess the situation over the next few months. There were fundamental changes taking place in the butterfat market and participants had to find durable solutions to the problems of that market. Australia believed that the Protocol Committees and the Council would need to return to this issue at their next meetings, and his country encouraged all participants to examine the problems in the butterfat market and to arrive to some assessment as to how to proceed in the coming months.

88. The representative of the European Community said that the Community believed that the Arrangement as it stood at the moment had worked relatively well and it did not see the urgency for changes of major elements of the Arrangement. Nevertheless, if there were requests from other participants to discuss those matters, the Community was ready to discuss them although the Community felt also that it was not necessarily the right time to do so. The Community accepted that there were problems in the world markets for butter, especially concerning the former Soviet Union, but it did not see that these problems were of the extent which had been alleged. The Community believed also that these problems had been taken into consideration in the June meeting when a derogation had been granted. However, the Community was open to a further discussion of the matter if it were requested.

89. The representative of Finland said that the functioning of the Arrangement was based on the expectation that all participants observed the agreed minimum prices. If that was not the case, the Arrangement would soon become meaningless. The butter markets were at present under heavy pressure as demand was continuing to decline. These problems were best illustrated by the recent decision to grant a derogation for the market of the former Soviet Union. The present situation had been aggravated by allegations that offers undercutting the agreed minimum export prices were presented in markets other than those covered by the derogation. His delegation hoped that the information received by his authorities through Finnish traders would only be a passing incident and that all members to the Arrangement would adhere strictly to the agreed minimum export prices. Finland would like to urge all participants to take the steps necessary to ensure that their traders observe the agreed minimum export prices and did not, through underselling, undermine the existence of the Arrangement.

Oral report by the Chairman of the Protocol Committees to the Council

90. The Committees agreed that an oral report giving an account of discussions at the present session would be submitted to the Council. This report was incorporated in the report of the Council (DPC/41).

Date of the next meetings

91. The next regular meetings of the Committees will be held on 13 and 14 December 1993, subject to changes as necessitated by the multilateral trade negotiations.