GENERAL AGREEMENT

ON TARIFFS AND TRADE

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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-Seventh Session

(21-28 March 1994)

1. The three Protocol Committees held a joint session on 21-28 March 1994 to discuss matters relating to the operation of the Protocols.

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

A. Election of the Chairman and Vice-Chairman

B. Adoption of report on the fifty-sixth session

C. 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

D. Transactions other than normal commercial transactions

E. Sales under derogations

F. Review of the market situation

G. Approval of processes and control measures, and reference points

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

I. Oral report to the Council

J. Dates of next meetings

Election of the Chairman and Vice-Chairman

3. In accordance with Rule 15 of the Rules of Procedure, Mr. András Lakatos (Hungary) was elected Chairman of the Dairy Protocol Committees for 1994/95; no Vice-Chairman was elected.

Adoption of report on the fifty-sixth session

4. The report on the fifty-sixth session was adopted as amended and distributed as document DPC/PTL/37.

Information required by the Committees

(i) **Replies to Questionnaires 1, 2 and 3**

5. The Committees reviewed the replies to Questionnaires 1, 2 and 3. Participants were requested to provide all the relevant information concerning the first quarter of 1994 by 15 June 1994.

(ii) **Summary tables**

6. The Committees took note of the summary tables based on information provided up to the third quarter of 1993 in respect of milk fat, cheeses and milk powders, issued as documents DPC/PTL/W/122, DPC/PTL/W/123 and DPC/PTL/W/124.

(iii) **Other information**

7. The Committees also took note of the information which the Secretariat had compiled on production, trade, stocks and consumption of dairy products in the United States.

Transactions other than normal commercial transactions

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

Sales under derogations

9. Regarding cheese, the Committees were informed that no new information had been received by the Secretariat. The Secretariat will prepare a revised register showing all sales to date.

10. The Committee of the Protocol Regarding Certain Milk Powders took note of the sales made under derogation notified by Poland and New Zealand (documents DPC/PTL/W/126 and DPC/PTL/W/115). The Committee also took note of a further notification from New Zealand totalling sales of 2.2 thousand tons, which would be distributed shortly. The participants were informed that the Secretariat would prepare a revised register showing all such sales to date.

11. The Committee of the Protocol Regarding Milk fat took note of the notifications furnished by Australia, Finland, Hungary, New Zealand and Poland pursuant to the Decisions taken on 22 June 1993 and 20 December 1993 under Article 7:1 of the Protocol (DPC/PTL/32 and DPC/PTL/36). A summary of notified sales was available as document DPC/PTL/W/114/Rev.2.

12. The European Communities stated that they would soon notify sales of 4,145 tons of butter under the derogation at a price range of US$1,003 to US$1,030 per ton f.o.b.

Review of the market situation

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

European Communities

14. The market situation in the EC was characterized as quite stable. This was primarily due to the fact that milk deliveries in 1993 were close to those of 1992. Between April and December 1993 they were less than 1 per cent below the 1992 level. Deliveries in 1993/94 were below the quota ceiling by about 5 per cent. Notably, in East Germany deliveries were well below the quota level. In some member States, the introduction of different national programmes to encourage farmers to cease production contributed to a reduction in milk output. However, the possibility of East Germany and Portugal increasing their deliveries could threaten the market situation in the future. Such a recovery could mean a further increase in purchases of both butter and skimmed milk powder into intervention.

15. The Commission had proposed a 1 per cent quota cut for 1994/95 as more appropriate than the 2 per cent agreed in the context of the CAP reform. If the 1 per cent reduction were approved, producers will be compensated at the rate of about 5 ECU per 100 kgs. of reduced milk quota over a period of 10 years. The Commission had also proposed that the intervention price for butter be reduced by a further 3 per cent on top of the 2 per cent which was already decided in June 1993. If this proposal were adopted, the butter intervention price would fall by 5 per cent compared to its present level on 1 July 1994. Further, the EC was considering establishing a definition for butter; cancelling intervention on cheese, and, improving the structure of the dairy sector by introducing a cessation scheme which would pay 17 ECU per 100 kgs. for a period of three years to those producers who accept to cease milk production.

16. With regard to the implementation of the quota system, progress had been made in all three countries where problems had occurred in earlier years. Nevertheless, the Commission had proposed that the temporary increase in quota which had been granted to Italy in the previous marketing year should be cut back from 990 thousand tons to 550 thousand tons because the country had failed to meet the set production target. Discussion on all proposals was continuing in the Council of Ministers.

17. Butter production was down 0.4 per cent from the 1993 level. However production in the last two quarters of 1993 was higher than for the comparable period of 1992. Skimmed milk powder production showed a decrease of 6.2 per cent during 1993. During the last quarter, skimmed milk powder production was about 7 per cent greater than the comparable 1992 level. Cheese production continued to increase and was up 1.4 per cent during 1993. For the final quarter of the year, the increase was about 1.9 per cent.

18. Butter prices were stable at about 93 per cent of the intervention price and skimmed milk powder prices were about 88 to 89 per cent of the intervention price level in 1993. Total intervention purchases in 1993 were relatively small. Small volumes of skimmed milk powder were purchased, indicating that the skimmed milk powder market was a little less firm than in the previous year. Offers to intervention totalled 11 thousand tons since the beginning of March 1994 when intervention became possible for skimmed milk powder. Butter bought under intervention in 1993 totalled 32 thousand tons. During the first months of 1994, butter volumes for intervention purchases were down about 30 per cent compared to the same period in 1993.

19. Estimates of butter consumption in the EC in 1993 showed an apparent and unexpected temporary increase of about 3 per cent as compared to 1992. The representative of the EC expressed uncertainty regarding the accuracy of this preliminary estimate as the butter consumption figure had been expected to continue its decline in 1993.

20. In the beginning of 1994, there was a substantial increase in subsidized butter consumption by the pastry and ice-cream sector. About 120 thousand tons were requested by the industry by mid-March 1994, an increase of about 40 per cent over the previous year. The total volume of butter taken under the pastry and ice-cream regulation in 1993 was 392 thousand tons, highlighting the importance this use of butter has in the EC. 4,145 tons of butter were sold under derogation to the former Soviet Union. Since the beginning of 1994, only small volumes of butter were exported.

21. The use of skimmed milk in animal feed and in casein dropped by about 20 per cent in 1993 compared to the previous year. This was partly due to the derogation from the minimum incorporation rate from 50 per cent to a level of 35 per cent. This derogation is presently under review.

22. In 1993, cheese consumption was about 1 per cent higher than in 1992 - signalling a slower rate of increase compared to earlier years.

23. The EC trade performance was generally positive in 1993. The changes in export volumes, compared to 1992 levels, were as follows:

Fresh products	+ 13 %
Whole milk powder	+ 2 %
Skimmed milk powder	- 13 %
Butter	- 29 %
Butter oil	- 2 %
Cheese	+ 13 %

24. With respect to the world market situation for butter, the representative of the EC expressed bewilderment over the sharp fall in prices. Price quotations published by the US Department of Agriculture every two weeks indicated that since December 1993, prices had fallen from US$1,250 per ton to US$1,000 per ton in the middle of March 1994. According to EC estimates, the volume of world trade in butter during the past year had increased by no less than 7 to 8 per cent. The representative stated that a large part of world butter trade was cleared at a price in excess of US$1,350 per ton and that too much emphasis was being placed on the trade under derogation to the former Soviet Union. In his view, the world butter market situation was not as bad as described by some, and there was a risk that prices would be "talked down".

25. Other delegates noted that this somewhat mild assessment of the world butter market situation was contradicted by the Commissions' own recent reports and that the weakness on the butter market was no recent phenomenon but had been around for more than the short period alluded to in the EC statement.

26. The EC observed, as a positive element, that the US Dairy Export Incentive Program (DEIP) announced in mid-March showed reduced export ambitions. In 1993, 200 thousand tons of milk powder exports were programmed, whereas in 1994 the level was 135 thousand tons. For milk fat, the previous level was 42 thousand tons compared to 27 thousand tons for 1994.

27. The EC export offer prices for the first quarter of 1994 were estimated as:

	US$ per ton
Skimmed milk powder	1,510-1,600
Whole milk powder	1,380-1,560
Butter (excluding sales under derogation)	1,350-1,480
Butter oil	1,625-1,780
Cheese	1,750-1,820

Hungary

28. Skimmed milk powder production decreased by 47 per cent to 5 thousand tons in 1993, compared to the previous year. During the last three months of 1993, production decreased by as much as 50 per cent. At the end of 1993, skimmed milk powder stocks amounted to 800 tons, which was 33 per cent higher than in the previous year. Domestic consumption in 1993 fell by 41 per cent to 4.6 thousand tons. Although there were no imports in 1992, these amounted to 200 tons in the last three months of 1993.

29. Production of whole milk powder decreased by 11 per cent to 5.8 thousand tons in 1993. Consumption more than doubled, from 1.5 to 3.6 thousand tons. Consequentially, imports increased while exports dropped by more than 50 per cent.

30. Butter production dropped by 18 per cent to 14.2 thousand tons in 1993. Exports increased by 18 per cent compared to the previous year and attained a level of 4.5 thousand tons. The average export price was US$1,484 per ton in 1993, practically unchanged compared to 1992. Imports of butter increased although the 1993 level remained insignificant compared to domestic production. Stocks decreased by 70 per cent. Due to the fact that dairy product prices continued to increase and that purchasing power diminished, there was a considerable decline in consumption of butter. Total domestic consumption of butter dropped by 23 per cent to 10.7 thousand tons in 1993. Cheaper local and imported margarine supplies played an important role in the decline of butter consumption.

31. Cheese production rose by 9 per cent to 47.3 thousand tons in 1993. While exports decreased by 10 per cent, imports increased by a remarkable 280 per cent - from 2.3 to 6.5 thousand tons. Thus total domestic consumption increased, attaining a level of more than 38 thousand tons.

32. The average Hungarian export (and import) prices during 1993 were estimated at:

	US$ per ton
Butter (for export)	1,484
Cheese (for export)	1,788
Cheese (imports)	1,810

Japan

33. The dairy industry in Japan faced serious problems in 1993, which were continuing. There had been an over-stock of butter and skimmed milk powder since 1992. Farmers' organizations started a campaign to reduce raw milk production in September last year and government support was introduced in order to reduce production. As a result, raw milk production had declined since September 1993. In Hokkaido, the principal producing area of Japan, a reduction in milk processing started in July 1993.

Production of butter and skimmed milk powder declined since November 1993. Nevertheless, present stocks of these products were still considered excessive. Butter stocks amounted to more than 50 thousand tons by the end of 1993, which equalled seven months of consumption.

34. Consumption of drinking milk had declined for two years in a row, which had not happened in Japan since 1945. Consumption of butter stagnated during the past two years, further aggravating the serious problems of butter stocks. On the other hand, cheese production increased due to a steady increase in consumption. Japan was now competing with the United States for the number one position as cheese importer.

New Zealand

35. By the completion of the 1993/94 season at the end of May 1994, New Zealand's milk production was expected to total between 720 and 730 million kgs. milk solids. In line with current milk deliveries, the increase in total production for the season was expected to be around 10 to 12 per cent above the 1992/93 level. The main reasons for this increase were:

- good herd and pasture conditions at the beginning of the season;
- exceptionally favourable weather through early February, which brought an early and high seasonal peak; and
- improved pasture and herd management, including fertilizer application and other capital improvement.

36. Production in the early months of the season surged to levels between 18 to 20 per cent above 1992/93 levels. Later, production increases subsided to between 6 and 11 per cent. Between November and February, increases averaged 10 per cent. With the deterioration in weather conditions, brought about by long dry spells, milk production for the remainder of the season was expected to be lower than earlier estimates.

37. Whole milk powder and skimmed milk powder production were expected to reach around 300 thousand tons and 140 thousand tons, respectively, by the end of the season, with respective growth rates of 6 and 10 per cent compared to 1992/93. Conversely, butter and butter oil production had remained static. During the 1993/94 season, it was expected to remain around the 276 thousand ton level recorded in 1992/93. Cheese production could exceed 180 thousand tons in the 1993/94 season, well ahead of the 146 thousand tons produced in the previous season. Growing market demand allows such an expansion without adverse effects in market opportunities or prices. Due to lower prices and increased powder production, the manufacture of casein had been restrained. Production for the season would be similar to the 75 thousand ton levels recorded during the last three seasons.

38. Market conditions had generally remained weak since October 1993, although without any dramatic changes. Prices had tended to decline, albeit gradually. The weakening which occurred was mainly driven by currency movements. A strengthening of the value of the US dollar against most other major currencies had the effect of making export pricing from major producers in Europe increasingly competitive when expressed in US dollar terms. There were no offsetting adjustments in EC export restitutions. Domestic conditions in both the United States and the European Communities remained reasonably balanced given continuing subsidized disposals on the internal and external markets.

39. Prices for milk powders started a firm and positive climb through December and January, however lower prices more recently had seen the average of quotations level off during the remainder of the first quarter of 1994. Demand in some key commodity markets was uncertain. Political instability

and accompanying economic weakness in the Commonwealth of Independent States, North and West Africa, and more recently in some markets of the Middle East, presented significant difficulties. Although these markets had historically been rather uncertain, their present circumstances particularly affected butter oil markets, aggravating the imbalance which persists.

40. Looking ahead, the representative of New Zealand indicated his expectation that butter and butter oil prices would remain weak. Demand was uncertain in key markets and competition remains intense. On the other hand, price prospects for cheese, milk powders and other protein products were judged better.

41. In response to a question, the representative of New Zealand indicated that the increase of 70 thousand in cow numbers in New Zealand had to be seen in the context of a total cow herd of 2.5 million. Thus, the increase could not be regarded as significant.

42. Countering the analysis of the EC, the representative of New Zealand stated that the weakness of the butter market was no recent phenomenon and had existed for more than the short period alluded to in the EC statement. The free market now prevailing in the former Soviet Union was a good indicator of current international market prices for butter - given the significance of the former Soviet Union market in volume terms. These prices ranged between US$950-US$1,100 per ton. Up to 70 per cent of the approximately 85 thousand tons sold under derogation was transacted at the lower end of this range. There was also evidence of sales below the lower range of prices reported in the former Soviet Union market. With respect to the increased quantity of butter traded on the international market, the former Soviet Union had essentially been out of the market in 1992 and, therefore, part of the apparent improvement in demand was due to the fact that it was now possible to make transactions in this market.

43. Export price ranges in the first quarter of 1994 were reported as follows:

	US$ per ton (f.o.b.)
Skimmed milk powder	1,475-1,525
Whole milk powder	1,425-1,500
Butter	950-1,350
Butter oil	1,500-1,700
Cheese	1,750-2,000

Poland

44. In 1993, there was a decline in the Polish dairy sector. Milk production dropped by 9 per cent as compared to the same period in 1992, amounting to 11.6 billion litres. Milk purchases dropped to 6.5 billion litres, 4 per cent less than in 1992. Production of whole milk powder and skimmed milk powder in 1993 remained stable. Butter production dropped by 7 per cent and casein production by 40 per cent as compared to the previous year. Cheddar cheese production showed an 8 per cent increase.

45. In foreign trade in 1993, an increase in imports of Cheddar cheese and skimmed milk powder was reported while, at the same time, there was a decrease in exports of whole and skimmed milk powder. In the fourth quarter of 1993, there was a big decline in Cheddar cheese and butter imports.

46. In the third quarter of 1993, Poland was faced with management problems of skimmed milk powder and butter stocks due to the collapse in exports. However, these problems were alleviated during the fourth quarter when exports of these products increased.

47. Butter exports under derogation totalled 1,789 tons in the fourth quarter of 1993. Total exports under this derogation in 1993 were 2,370 tons, at an average price of US$1,105 per ton.

48. Average export prices in the fourth quarter of 1993 were as follows:

	US$ per ton (f.o.b.)
Skimmed milk powder	1,230
Whole milk powder	1,354
Butter: Normal sales	1,350
Sales under derogation	1,105
Cheese	2,104
Casein	3,133

South Africa

49. In 1993, total milk production increased by less than 1 per cent to 1.94 million tons. Domestic consumption of milk during the year was 958 thousand tons, a decrease of 4.3 per cent from the previous year, reflecting lower consumption of fresh milk and of milk used for industrial processes.

50. Skimmed milk powder production in 1993 decreased by almost 15 per cent to 16,303 tons. Consumption in 1993 decreased by 23 per cent. In 1993, no skimmed milk powder was imported but 7,021 tons were exported. Whole milk powder production increased by 19 per cent to a level of 15,594 tons in 1993. Consumption also increased, by 25 per cent, to 14,073 tons. No whole milk powder was imported but 1,338 tons were exported during 1993.

51. Butter production decreased by 14 per cent to 14,016 tons in 1993. Consumption of butter remained unchanged vis-à-vis 1992 and 1991. This resulted in a fall of butter stocks by as much as 76 per cent compared to the level at the beginning of the year. No butter was imported but 3,669 tons of butter were exported in 1993.

52. Production and consumption of cheese in 1993 were 35.6 thousand tons and 33.65 thousand tons, respectively. This represented an increase of 4 per cent in production and a decrease of about 4 per cent in consumption during 1993 as compared to 1992. Exports and imports of cheese remained at minimal quantities.

Finland

53. Milk production in the first three months of 1994 was almost on the same level as in 1993, although total production during 1994 is expected to decrease slightly by 0.5 to 1 per cent.

54. Skimmed milk powder production was at the same level in the first quarter of 1994 as it was a year ago. Stocks, as well as exports, decreased while consumption remained unchanged. In the first quarter of 1994, there were no sales of skimmed milk powder or whole milk powder. Whole milk powder production was very small, under 1 thousand tons during 1993, and stocks were below 1 thousand tons. All production was exported.

55. Butter production was presently at the comparable level of 1993, or slightly less. Exports in the first three months of 1994 have been 18 to 20 thousand tons, which was similar to the level attained in 1993. There was a slight increase in consumption in the first quarter of 1994, and a 1 per cent increase is expected for the full year. Stocks were low in January and February, amounting to only 1 or 2 thousand tons of butter.

56. Cheese production increased by 2 per cent in 1993 and was expected to remain steady during 1994. Imports were 2.5 thousand tons in 1993, and there may be a slight increase in 1994. Exports were 25 thousand tons in 1992 and 1993, and this level was expected to be maintained in 1994. Consumption decreased in mid-1993 but could stabilize in 1994, or even increase somewhat. Cheese stocks fell slightly from 10 thousand tons in 1992 to 8 thousand tons by the end of 1993.

57. Export prices for Finnish dairy products were as follows:

		US$ per ton (f.o.b.)
Skimmed milk powder	(4th quarter 1993)	1,500-1,600
Whole milk powder	(4th quarter 1993)	1,300
Butter	(4th quarter 1993)	1,000-1,200
	(1st quarter 1994 - other markets)	1,350-1,400
	(1st quarter 1994 - FSU derogation sales)	1,000-1,100
Butter oil	(1st quarter 1994)	1,625
Cheese	(4th quarter 1993)	3,400-3,500
	(1st quarter 1994)	3,600

Norway

58. Milk deliveries in 1993 amounted to 1,780 million litres, which was a small reduction compared to 1992. The expectation for 1994 was 1,752 million litres. The number of dairy cows fell slightly during the year to 327 thousand head by the end of 1993. The 1994 estimate was for a further reduction of the dairy cow herd to 322 thousand head.

59. There was a reduction in butter production and consumption in 1993 compared to 1992. Production decreased by 5.5 per cent and consumption by almost 5 per cent. There were no imports of butter in 1993, while exports increased to 7,588 tons. Most of the butter was exported to Morocco, Tunisia, Egypt and Algeria. For 1994, a reduction of butter exports was expected.

60. Production of cheese amounted to 82.3 thousand tons in 1993, an increase over 1992. Domestic consumption rose by 2 per cent during the year. Imports, at 2,428 tons, were at the same level in 1993 as in 1992. Exports, on the other hand, fell 14 per cent to 22,800 tons, destined for the European Communities, Japan, Australia, Canada and the United States.

61. Production of skimmed milk powder dropped to 1,951 tons in 1993, exports increased by 1,178 tons and consumption grew by 190 tons. There were no imports of skimmed milk powder in 1993. Production and domestic consumption of whole milk powder amounted to approximately 1,500 tons in 1993. There was no foreign trade in whole milk powder in 1993.

Sweden

62. Milk deliveries increased by 4.9 per cent in 1993 to 3,287 million kgs. The increase was due to higher yields. Deliveries in January 1994 were 2.1 per cent higher than in the corresponding month of 1993.

63. Following an increase in skimmed milk powder production during the first three quarters of 1993, production decreased in the last quarter of 1993. For 1993 as a whole, production of skimmed milk powder amounted to 36.6 thousand tons, compared to 29.8 thousand tons in 1992. According to preliminary information, total exports in 1993 were estimated to reach about 10 thousand tons

compared to 4.7 thousand tons in 1992. Stocks decreased during the fourth quarter of 1993 and were at a rather low level, 3.4 thousand tons compared to 4.8 thousand tons at the end of 1992.

64. Butter production decreased in the fourth quarter of 1993, but total production in 1993 increased by 4.7 per cent to 38.9 thousand tons. Total domestic consumption of butter in 1993 amounted to 19.9 thousand tons, approximately 5 per cent more than in 1992. This increase occurred in the second half of 1993. Foreign trade figures were not yet available for 1993 as a whole, but preliminary estimates put total butter exports in 1993 at approximately 20 thousand tons, compared to 16.7 thousand tons in 1992. In the first quarter of 1994, only small quantities were exported. Butter stocks at the end of 1993 were 1.4 thousand tons, compared to 3.1 thousand tons at the end of 1992.

65. Swedish cheese production increased by approximately 7 per cent in 1993 to 125.8 thousand tons. Production continued its increase in early 1994. According to preliminary figures, exports as well as imports increased slightly in 1993. Stocks at the end of 1993 were 32.9 thousand tons, 12 per cent less than at the end of 1992.

66. Average Swedish export prices in March 1994 were:

	US$ per ton (f.o.b.)
Skimmed milk powder	1,450
Butter	1,350

Switzerland

67. In 1993, milk deliveries totalled 3 million tons, an increase of slightly less than 1 per cent over 1992. The provisional estimates for the first two months of 1994 show an increase of 0.4 per cent to 491 thousand tons compared to 489 thousand tons in the corresponding period of 1993.

68. Production of skimmed milk powder dropped slightly in 1993 to 22.8 thousand tons, compared to 25 thousand tons one year earlier. Consumption declined in line with production. Stocks amounted to 3.4 thousand tons at the end of 1993. Exports totalled 7.5 thousand tons.

69. Butter production dropped slightly from 32.9 thousand tons in 1992 to 32.4 thousand tons in 1993. Imports increased from 4.9 to 6.2 thousand tons. Encouragingly, there was a slight increase in butter consumption for the second consecutive year, from 37.6 thousand tons in 1992 to 38.6 thousand tons during 1993. Stocks remained stable at 4.5 thousand tons at the end of 1993.

70. Cheese production increased by 2.6 per cent in 1993. In the last quarter however, there was a decrease in production and it was expected that declines in production would continue during the beginning of 1994. Manufacturing restrictions for hard cheeses were introduced. Exports fell by 4.2 thousand tons which is a 6.5 per cent decrease. Switzerland faced tough competition for Emmental cheese on the international market, and the relative strength of the Swiss franc compared to other currencies also contributed to the decrease in exports. Imports increased by almost 9 per cent to 29.5 thousand tons. The main increase was in soft cheeses. Consumption increased by almost 5 per cent in 1993 compared to 1992, reaching 101 thousand tons for the year as a whole. Stocks were 26 thousand tons by the end of the year and are increasing due to the difficulties encountered in exports.

71. Swiss foreign trade prices during the fourth quarter of 1993 were:

	US$ per ton (f.o.b.)
Butter (imports)	1,500-1,600
Skimmed milk powder (exports)	1,600-1,620
Cheese (exports)	6,500-6,800

Uruguay

72. The dairy sector in Uruguay was presently undergoing a crisis. Loans obtained for the improvement of pasture land had been reduced, and in some instances eliminated completely. Thus, investment in the dairy sector, dependent on future quality improvements in foodstuffs and grain, was suffering and a reduction of milk production was forecast for 1994.

Argentina

73. In 1993, milk production came close to 6 million tons, an increase of 3 to 4 per cent compared with the previous year and an increase of 9 to 10 per cent compared to the 1990-91 level. Not taking into account the peak year of 1992, consumption was relatively stable, with only a small reduction in 1993.

74. The representative of Argentina expressed doubts about the accuracy of the 1993 skimmed milk powder production and trade figures. According to these, production and total imports dropped substantially from 24 thousand to 13 thousand tons and from 18 thousand to 5.5 thousand tons, respectively. Exports increased from practically zero to 5.5 thousand tons. There was also a noticeable reduction of internal consumption, from 36.3 thousand to 21.4 thousand tons. The stock level diminished considerably from 11.8 thousand tons to only 2.5 thousand tons by the end of 1993.

75. Production of whole milk powder dropped slightly from 71 thousand tons to 70 thousand tons. Imports dropped steeply from 15.6 thousand tons to 3.7 thousand tons. Exports increased from 1.1 thousand tons to 4.4 thousand tons. Internal consumption of whole milk powder declined.

76. Butter production in 1993 increased substantially to 50 thousand tons. This resulted in a drop in imports from 11.3 thousand tons to 1.9 tons in 1993. Exports remained at low levels, but increased from practically zero to 920 tons. These were destined for Brazil. There was also an increase of internal consumption, and year-end stock levels were half of those in 1992.

77. Total 1993, production of cheese increased from 290 thousand tons to 321 thousand tons. The increase was constant in the first months of the year but was quite strong in the third and fourth quarters. Imports dropped from 6,280 tons in 1992 to 1,838 tons in 1993. There was an increase in exports from 2,645 tons to 3,462 tons. Internal consumption increased while stocks remained at the same level as in the previous year.

78. Casein production increased from 397 to 537 tons. There was a decrease in imports while exports remained at the same level. Internal consumption of casein also increased.

79. Condensed milk production dropped from almost 14 thousand tons to 11 thousand. Imports remained at last year's zero level while exports dropped slightly. Internal consumption dropped too. Stocks remained at the same level as the previous year.

80. The ranges for Argentinean export prices in 1993 were as follows:

	US$ per ton (f.o.b.)
Butter (first 9 months 1993)	1,900
Skimmed milk powder (last 4 months of 1993)	1,400-3000
Whole milk powder (4th quarter 1993)	1,770-3200
Cheese (4th quarter 1993)	3,000-4,700

Australia

81. Milk production from July 1993 to January 1994 totalled 5,368 million litres, an increase of just over 9 per cent over the same period in 1992/93. This increase in production, which reflected continued excellent seasonal conditions in major production regions, was achieved despite drought conditions in some areas of Queensland.

82. Total cheese sales on Australia's domestic market increased by 3.5 per cent for the twelve months ending in November 1993, compared with the same period in 1992. There was, however, a significant divergence across categories. Sales of round-eye type of cheeses, such as Edam, Gouda and Swiss, continued to decline by almost 15 per cent over the same period in 1992. Hard and Cheddar cheese sales increased by around 5 per cent, while shredding cheese sales continued their solid growth with an increase of around 9 per cent. Over the same period, there was an increase of almost 18 per cent in sales of housebrand/generic lines of cheese. These lines increased their market share to 17 per cent, up almost 2 per cent from 1992. While the increase in this product category reflects general economic conditions, it is also an indication of the broader range of products marketed using generic brand lines. Growth in sales of lower-fat cheeses began to ease, but remained relatively strong with an increase of almost 11 per cent. Currently, lower-fat cheeses account for around 18 per cent of total cheese sales.

83. Total retail sales of tablespreads over recent years have been at best static in Australia, reflecting consumer dietary concerns. As a result, per capita consumption of tablespreads fell during 1993. While total retail sales remained around 123 thousand tons, there were significant shifts within the tablespreads market. Pricing strategies and general consumer preferences underpinned these shifts.

84. Sales of butter and dairy blends increased over the past year, and their market share increased marginally from around 25.7 per cent in the year to October 1992 to 26.6 per cent for the same period in 1993. Increased sales of butter were mainly due to aggressive price discounting, while more promotion and some new product lines resulted in higher dairy blend sales. There was an increase in output of most products, including butter, as a result of greater manufactured milk supplies in most areas.

85. Mono-unsaturated margarine sales continued to enjoy strong growth (up by 3.5 thousand tons for the year to October 1993), thanks to strong consumer acceptance of the product, and assisted by ongoing new product launches and associated marketing efforts. In contrast, saturate sales, which totalled around 9 thousand tons, continued to fall and were down by 4 thousand tons.

86. The representative of Australia described the international dairy products market as delicately balanced, at best. Its direction during 1994 remained uncertain. Butter and anhydrous milk fat (AMF) prices continued to be depressed and milk powder prices remain at lower levels than earlier in 1993. Cheese prices were generally stable. The butterfat market continued to be problematic with a significant structural demand problem exacerbated by significant subsidized exports from the United States during

1993. The strength of the Australian dollar since December has had a negative effect on Australian dairy export returns.

87. Butter and anhydrous milk fat prices remained around their respective IDA minimums of US$1,350 and US$1,625 per ton, apart from moderate quantities being sold at lower prices under the derogation to former Soviet Union countries. Australian suppliers had sold most of their export-dedicated products for this year, and were not under supply pressure.

88. A key factor in the ongoing weakness in international butter/AMF markets was the general shortage of hard currency in former Soviet Union countries. Commercial demand from other important markets, such as Algeria and Japan, had been adversely affected by domestic economic conditions in these countries. It was the Australian view that butter prices would continue to be under pressure for the foreseeable future. An indicative price range for sales under derogation and by non-IDA members, was in the vicinity of US$950 to US$1,100 per ton. Some US traders had been quoting prices as low as US$800 per ton.

89. Skimmed milk powder was currently trading at some US$250 to US$300 per ton above the IDA minimum price of US$1,200 per ton, a marginal improvement from the December 1993 situation. However, skimmed milk powder prices might come under renewed downward pressure in the Northern Hemisphere during the spring of 1994, as the result of a possible build-up of EC stocks.

90. Whole milk powder prices were currently in the range US$150 to US$200 per ton above the IDA minimum price of US$1,250 per ton. This also represented a marginal improvement since December 1993. The fact that whole milk powder prices were lower than skimmed milk powder prices reflected the lower value of fat relative to protein. International whole milk powder prices should benefit in 1994 from the effects of the mid-1993 cut in EC export restitutions. Future demand prospects for whole milk powder were mixed. Algeria and the former Soviet Union, key markets for whole milk powder, still had internal economic difficulties. Counteracting these difficulties to some extent was the possibility that there could be continued strong demand from Asia and Latin American countries.

91. Cheese prices remained steady over recent months as the key Japanese market, despite economic difficulties and increased domestic cheese production, continued to have strong demand. Bulk Cheddar was currently trading in the range of US$150 to US$400 per ton above the IDA minimum price of US$1,500 per ton. This represented a marginal increase since December 1993 at the top end of the market, but no change at the lower end. The growth in recent years 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. In addition, demand from Asian markets for cheese had steadily increased in line with a gradual increase in per capita consumption and a greater willingness to embrace Western style foods.

92. The representative from Australia reported the following observed international dairy prices in March 1994:

	US$ per ton (f.o.b.)
Skimmed milk powder	1,450-1,500
Whole milk powder	1,400-1,450
Butter	1,350
Anhydrous milk fat	1,625
Cheese	1,650-1,900

FAO

93. FAO estimated world output of milk from cows and other livestock to have been 517 million tons in 1993, 1.5 per cent lower than in the previous year. Output continued to grow by 2 per cent in the developing countries, from 168 million tons in 1992 to 172 million tons in 1993. Milk production in the developing countries accounted for one third of the world total.

94. Among the developing countries, the fastest growth in milk production occurred in Asia, where it rose by 4 per cent. In India, the largest producer among developing countries, a 4 per cent expansion in output was reported. However, in China production grew by only 1 per cent, a much smaller growth rate than in recent years; this reflected lower profitability associated with increased feed costs and static farm-gate prices.

95. Further expansion also occurred in Latin America, where output rose by 2 per cent to reach 45 million tons. In African developing countries, aggregate production remained at its 1992 level of 11 million tons. While several countries in this area continued to show steady growth in output, production among southern African countries was affected by the 1992 drought which reduced herd sizes and increased feed prices.

Approval of processes and control measures, and reference points

96. The Committee of the Protocol Regarding Certain Milk Powders, pursuant to Article 3:5 of the Protocol, approved the Polish processes and control measures for the denaturing of skimmed milk powder and buttermilk powder for inclusion in the register established by the Committee. It also approved a revised text of the European Communities' processes and control measures to be included in Attachment C of the new International Dairy Agreement.

97. The Committee of the Protocol Regarding Milk Fat amended, upon request by Poland and in pursuance to Article 2:1 of the Protocol, the list of reference points of the Protocol. The Committee accepted Antwerp, Hamburg and Rotterdam as reference points for Polish exports of butter and butter oil.

Review of the level of minimum prices under Article 3:3

98. The Committees reviewed the levels of minimum export prices for products covered by the Protocols on the basis of the criteria established by the Arrangement. The Committee Regarding Milk Fat considered proposals for the suspension and/or reduction of the minimum prices for butter and anhydrous milk fat. The Committee noted the differences in the analysis of the market situation by different participants and could not reach an agreement on a change to the minimum price.

Oral report to the Council

99. The Committees agreed that an oral report of the discussions of the present session would be submitted to the Council. This report was incorporated in the report of the Council (DPC/43).

Dates of the next meetings

100. The next regular meeting of the Protocol Committees will be held on 20-21 June 1994, subject to confirmation by the Secretariat.