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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-Eighth Session

(13 June 1994)

1. The three Protocol Committees held a joint session on 13 June 1994 to discuss matters relating to the operation of the Protocols.

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

A. Adoption of report on the fifty-seventh 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 derogations

E. Review of the market situation

F. Adoption of report to the Council

G. Dates of next meetings

A. Adoption of report on the fifty-seventh session

3. The report on the fifty-seventh session was adopted as amended and distributed as document DPC/PTL/42.

B. Information required by the Committees

(i) Replies to Questionnaires 1, 2 and 3

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

(ii) Summary tables

5. 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/139, DPC/PTL/W/140 and DPC/PTL/W/141.

(iii) Other information

6. 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.

C. Transactions other than normal commercial transactions

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

D. Sales under derogations

8. The Committee of the Protocol Regarding Certain Milk Powders took note of sales made under derogation notified by New Zealand (document DPC/PTL/W/129).

9. The Committee of the Protocol Regarding Milk Fat took note of the notifications furnished by participants pursuant to the Decisions taken on 22 June 1993, 20 December 1993 and 29 March 1994 under Article 7:1 of the Protocol. As of 13 June 1994, a total of 85,502 metric tons of derogation sales had been notified (DPC/PTL/W/114/Rev.3). The European Communities indicated that although final figures were not yet available, a maximum of 10 thousand tons of EC butter had been sold under the derogation and would soon be notified. Prices were in the range of US$1,025 to US$1,050 per ton f.o.b.

10. The Committee of the Protocol Regarding Certain Cheeses took note of a notification from New Zealand on sales under derogation totalling 895 tons of cheese (document DPC/PTL/W/142).

E. Review of the market situation

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

Switzerland

12. In the first four months of 1994, milk deliveries totalled 1,061 million tons, an increase of 1½ per cent compared with the corresponding months of 1993.

13. Production of skimmed milk powder in the first quarter of 1994 increased by 15 per cent to 9.2 thousand tons compared to 8 thousand tons in the first quarter of 1993. Consumption increased to 7 thousand tons in this period compared to 5.7 thousand tons consumed in the first quarter of 1993. Exports were nil and stocks were reduced at the end of the first quarter of 1994.

14. Production of butter in the first quarter of 1994 increased by 24 per cent to 11.3 thousand tons, compared to 9.1 thousand tons in the first quarter of 1993. Imports remained stable and an increase was not expected until the fall of 1994. Consumption in that period was higher and stocks at the end of the first quarter of 1994 remained unchanged compared to their level one year earlier.

15. Cheese production decreased by 7.3 per cent in the first quarter of 1994 to 30.2 thousand tons. Imports increased by 4.3 per cent to 7.2 thousand tons. Exports increased by 1 per cent to 14 thousand tons. Consumption of cheese decreased by 9.3 per cent to 22.5 thousand tons. Stocks at the end of the first quarter, at 27 thousand tons, were 14 per cent higher than their level in the beginning of the quarter.

16. Swiss foreign trade prices during the first quarter of 1994 were:

	US$ per ton (f.o.b.)
Skimmed milk powder (imports)	1,750
Butter (imports)	1,770
Cheeses (exports)	6,750
Cheeses (imports)	5,950

Sweden

17. Milk deliveries to dairies in the first four months of 1994 increased by 1.6 per cent to 1,136 million kgs. The increase was due to higher yields.

18. Production of skimmed milk powder was declining in Sweden. During the first quarter of 1994, output decreased by 25 per cent to 8.6 thousand tons. According to preliminary figures exports during the first quarter of 1994 remained unchanged compared to the first quarter of 1993. Stocks continued to decrease during the first quarter and were at a rather low level, 2.8 thousand tons compared to 3.3 thousand tons at the end of the first quarter of 1993.

19. As a result of a switch from butter production to cheese production, butter output decreased by 29 per cent to 8.2 thousand tons in the first quarter of 1994. At the same time domestic consumption of butter increased by 4 per cent to 4.9 thousand tons. Based on preliminary estimates, foreign trade continued to decline during the first quarter of 1994. At present, only small quantities were exported. Butter stocks at the end of the first quarter of 1994 were 2.8 thousand tons, compared to 4.3 thousand tons at the end of the first quarter of 1993.

20. Swedish cheese production, which increased by approximately 7 per cent in 1993, increased by 15 per cent in the first quarter of 1994 to 33.8 thousand tons. Domestic consumption of cheese increased by 9 per cent in 1993, and continued to increase in the first quarter of 1994. Foreign trade figures were not yet available for the first quarter of 1994. Stocks at the end of the first quarter of 1994 were 32.8 thousand tons, about 13 per cent higher than the comparable stock level in 1993.

21. Average Swedish export prices in May 1994 were:

	US$ per ton (f.o.b.)
Skimmed milk powder	1,550
Butter	1,300

Norway

22. Milk deliveries in 1993 amounted to 1,780 million litres, which was a small reduction compared to 1992. The expectation for 1994 is for 1,752 million litres. The number of dairy cows fell slightly during 1993, and a further reduction of the dairy cow herd is expected in 1994.

23. Production and consumption of skimmed milk powder were down by 470 tons and 340 tons, respectively. There were no substantial exports or imports of skimmed milk powder in the first quarter of 1994. Production and domestic consumption of whole milk powder amounted to 300 tons in the first quarter of 1994. There was no foreign trade in whole milk powder in that period.

24. Butter production decreased by 11 per cent and consumption by 5 per cent in the first quarter of 1994 compared to the first quarter of 1993. There were no imports of butter in the first quarter of 1994, while exports amounted to 1.2 thousand tons. Most of the butter was exported to North African countries. Export prices were US$1,350 per ton at the reference points.

25. Production of cheese amounted to 21.4 thousand tons in the first quarter of 1994, a decrease over the corresponding quarter of 1993. Domestic consumption rose by 0.7 per cent in that period. Imports, at 570 tons, were down by 100 tons. Exports fell by 17 per cent to 5.3 thousand tons, destined for the European Communities, Australia, Canada, the United States, Sweden and Mexico.

Finland

26. Milk deliveries during January-March 1994 were 4.1 per cent higher than in the corresponding period of 1993. Total production during 1994 is expected to increase by 1.4 per cent to 2,295 million litres.

27. Skimmed milk powder production increased by 38 per cent in January-March 1994 to 3.7 thousand tons. Exports in that period were negligible and stocks in March 1994 were 3.8 thousand tons. Total production for 1994 is estimated to reach 18 thousand tons, consumption 13 thousand tons and exports 5 thousand tons. Whole milk powder production was 450 tons in the first three months of 1994 and exports were nil. Production was expected at 1 thousand tons, consumption at 800 tons and exports at 200 tons in 1994. Stocks in April were 400 tons.

28. Butter production in January-March 1994 was 10.3 per cent higher than in the corresponding period of 1993. The estimate for the whole year 1994 is 59 thousand tons, an increase by 4.6 per cent over 1993. Butter consumption in January-March 1994 decreased by 2 per cent but a 0.5 per cent increase is expected for the full year. Finland exported 8.8 thousand tons of butter in the period January to April 1994 and expects to export 20 thousand tons by the end of the year.

29. Cheese production increased by 1.4 per cent in the first quarter of 1994 to 22.7 thousand tons. Consumption in January-March 1994 was 1.8 per cent higher than in the corresponding quarter of 1993. Consumption in 1994 was expected to amount to 70 thousand tons, the same quantity as in 1993.

Exports in January-March decreased by 11 per cent to 5.3 thousand tons and were expected to amount to 25 thousand tons for the full year 1994. Stocks in March were 8.6 thousand tons.

South Africa

30. The national dairy herd has declined over the past few years. Since 1992, the demand for dairy products has declined sharply, so that additional surpluses are starting to accumulate in the milk industry. A drop in milk prices appears inevitable, which could result in producers reducing their herds. South Africa's total milk production is currently less than 2 million tons a year. Consumption of fresh milk is expected to stay at levels similar to 1993.

31. Production of skimmed milk powder decreased by 703 tons to 5 thousand tons in the first quarter. Consumption of skimmed milk powder during the first quarter of 1994 showed a recovery, but the 1993 annual level was well below the 1992 figure. Production also decreased during 1993 so stocks remained manageable.

32. Whole milk powder production decreased by 45 per cent during the first quarter of 1994 to 3 thousand tons. Consumption increased by 11 per cent during the first quarter to 3.76 thousand tons. No whole milk powder was imported, but 427 tons were exported during the period of January to March 1994. The decrease in production and the increase in consumption during the first quarter led to a decrease in stocks at the end of March of 37 per cent. As previously reported, whole milk powder consumption for the year 1993 was much greater than in 1992. This was attributed to the political unrest in the country. Consumption did, however, continue at a high level in the first quarter of 1994. Production was lower during the first quarter compared to the same period last year, and stocks were significantly reduced.

33. Annual production declined while consumption remained fairly constant during 1993, so stocks of butter remained at a low level. 357 tons and 390 tons of butter were imported and exported, respectively, during the period January to March 1994.

34. The production and consumption of cheese for the period January to March 1994 was 7.89 thousand tons and 7.85 thousand tons, respectively. These figures represent the lowest first quarter production and consumption figures for several years and are indications of the disturbing trend of lower consumption. Eighteen tons of cheese were exported and no cheese was imported during the first quarter of 1994.

Poland

35. There has been a steady decline in the cow population in Poland since 1990. At the end of the year 1993, dairy cow numbers were 3.86 million head. In the first quarter of 1994, they dropped by another 20 thousand head to the present 3.84 million head. As a result, there was a declining trend in milk production. Milk procurement in 1993 was 6.5 billion litres, i.e., a decline by 42 per cent over 1989.

36. In the first quarter of 1994, skimmed milk powder production dropped by 30 per cent as compared to the first quarter of 1993. Whole milk powder production was unchanged. Butter production dropped by 12 per cent in that period. Cheddar cheese production increased by 20 per cent compared to the first quarter of 1993.

37. In foreign trade in the first quarter of 1994, a drop in imports of skimmed milk powder, whole milk powder, butter and Cheddar cheese was reported. During the same period, exports of skimmed

and whole milk powder, butter, and Cheddar cheese increased. Dairy products stocks were at normal levels.

38. Average export prices in the first quarter of 1994 were as follows:

		US$ per metric ton (f.o.b.)
Skimmed milk powder		1,247
Whole milk powder		1,407
Butter:	Normal sales	1,367
	Sales under derogation	1,230
Cheese		2,143

New Zealand

39. Several months of below average rainfall through late summer and autumn have adversely affected production compared with the very good start to the season. Cow condition, pasture cover and feed availability are considered below the levels required for optimal winter and spring production. Farmers have generally been determined not to compromise spring production by milking too long through the autumn. Nitrogen fertilizers are likely to be used to boost pasture cover. Due to positive climatic factors described in previous reviews, milk production for the season was 13 per cent greater than the 1992/93 season, an equivalent of 8.6 million tons of whole milk.

40. Production estimates for the various product groups over the 1993/94 season (1 June-31 May) are as follows:

	Thousand tons	
	1993/94 (Provisional)	1992/93
Skimmed milk powder	142	127
Whole milk powder	296	283
Butter oil (butter equivalent)	302	276
Cheese	192	146

41. Though prices generally have tended to be weaker since the last review in March, underlying market conditions have not deteriorated significantly. Any changes are largely due to foreign exchange rate fluctuations. The outlook suggests that there is potential for improvements through the course of the 1994/95 season. Any general up-turn in market conditions is still sensitive to a number of largely unpredictable factors, not the least of which is movements in relative currency values.

42. The most significant developments affecting general market conditions in the first quarter of 1994 have included market failures in some key importing countries. Most notable in this regard have been the on-going problems in North Africa and the emergence of payment problems in the Middle East. The difficulties faced in each case is not a lack of demand from consumers but rather a national economic insolvency leading to an inability to pay for imports.

43. The reactivation of the Dairy Export Incentive Program (DEIP) by the United States in March is expected to contribute to pricing pressure. Although the volumes of product sold under this programme have been modest so far, its re-introduction has had a negative effect on market expectations.

44. The suspension of the GATT minimum price for butter and butter oil in early May reflected the culmination of difficulties and pressure on pricing for butter and butter oil over the last eighteen months. The immediate market effects of the price suspension have not been, and are not expected to be, significant.

45. On the other hand, there has been a very successful accommodation in the market of New Zealand's and Australia's expanded 1993/94 season's production. The commitment of large volumes of butter, especially from New Zealand, at discounted prices in Russia has been an important factor in achieving this result. Except for relatively minor volumes of some products, the current season will end with all New Zealand output sold.

46. The reduction of EC export subsidies by 5 per cent at the end of April (on all products except butter and skimmed milk powder) has assisted in firming market conditions. This is important not only because of its immediate effects on European export prices but also because it signals a relative balance of the Community's dairy market. Coincident to these restitution cuts was a significant weakening in the value of the dollar against major European currencies. This provided a further positive boost for European export prices. Although market prices have yet to respond positively to the upward lift in European export prices, indications are that prices may have stabilized and indeed begun to rise, albeit gradually.

47. The indicative export prices in the second quarter of 1994 were as follows:

	US$ per ton (f.o.b.)
Skimmed milk powder	1,425-1,475
Whole milk powder	1,425-1,475
Butter	1,100-1,350
Butter oil	1,400-1,550
Cheese	1,750-1,950

48. New Zealand farmers' returns reflect the overall market deterioration over the 1993/94 season. The final milk value set by the New Zealand Dairy Board for the 1993/94 season was fixed at $NZ 2.90/kg. milk solids ($NZ 5.05/kg. milk fat). This compares to $NZ 3.25/kg. milk solids ($NZ 5.65/kg. milk fat) paid in the 1992/93 season, a decline in income for farmers of 10-11 per cent.

49. The key element in the outlook is the continued balance of dairy markets in the northern hemisphere. Government stocks of butter and skimmed milk powder are modest and are being successfully contained by internal consumption and assistance programmes. The high level of export activity from southern hemisphere producers is expected to continue. However, the growth in milk production of the last two years is unlikely to be sustained at the same rate in 1994/95. A much smaller increase, most commonly predicted at between 2-3 per cent, is likely. Most of the additional production will be destined for butter and skimmed milk powder manufacture although there is an apparent desire to also expand output of cheese and other products to match growing demand. Pressure to secure increased export sales can therefore be expected and strong price competition will accordingly accompany such activity in 1994/95. This has the potential to offset or even undermine improvements in prices which might otherwise be anticipated.

50. DEIP exports are another critical competitive supply source. Although these are not expected to have a dramatically different influence on market trends and pricing prospects from previous seasons, the ability for this programme to be expanded is cause for some concern.

51. The influence of the results of the Uruguay Round negotiations are expected to begin to contribute to healthier trends in markets generally as the 1994/95 season progresses. This will come from the planning to make products available for new market openings and from the adjustments to the limits which will apply to subsidized exports.

52. Demand conditions in the market for 1994/95 are much more uncertain than are competitor supply circumstances. Notwithstanding the success of sales this year, the outlook for the Russian butter market remains problematic. Aforementioned regional weaknesses also look set to persist. While the implications of a collapse of import requirements in these regions are less important than to Russia, they are together a major source of concern. Should problems also arise in a third market of this order of importance, the consequences for prices and returns would be serious.

53. Taking all factors together, the market outlook is modestly positive for international prices and hence farmer returns. For the immediate future, a great deal will depend on the competitive interaction between exporters. Major downside risks are still associated with uncertainty in key markets and, for New Zealand, a change in terms of trade due to strengthening currency.

Japan

54. The production of raw milk remained at a high level, however the overall demand for dairy products has been stagnating, due mainly to the economic slowdown. In particular, butter stocks, equivalent to almost 7½ months of use, are of major concern. In order to cope with this situation, the milk producers organization reduced the milk production target quantity for FY 1993 to 98 per cent of the original plan. In order to support the milk producers' efforts, the Ministry of Agriculture, Forestry and Fisheries started subsidizing programmes to slaughter dairy cows and to feed raw milk to calves. In addition, an aid programme for private butter stocks started last August.

55. As a result of the campaign to reduce the production of raw milk, the total amount decreased by 3½ per cent during the first quarter of 1994 compared to the same period last year. Since the demand for drinking milk was about the same as during last year, milk used for manufacturing dairy products decreased by 9.6 per cent compared to the same period last year. The production of natural cheese also decreased compared to the same period last year. Production of butter and skimmed milk powder started to decrease as of last November (butter by 9.4 per cent and skimmed milk powder by 9.7 per cent). Since the demand for cheese is still growing, the production of natural cheese is expected to increase in the mid or long term. As the market is still seriously over-supplied, the milk producers organization has set the milk production target for FY 1994 at 95.3 per cent of the revised amount for FY 1993.

56. Imports of skimmed milk powder during the first quarter of this year decreased by 3.9 per cent to a total of 19 thousand tons (mainly destined for animal feed) compared to the same period last year. The average import price of skimmed milk powder for human consumption has little changed since the last quarter of 1993. However, that of animal feed fell sharply (by 13.6 per cent). Compared to the same period last year, the average import price of skimmed milk powder for human consumption was reduced by 4.3 per cent and that of animal feed was reduced by 24.4 per cent.

57. Imports of butter (only for special use, such as quotas for Okinawa, hotels and international airlines, among others) increased by 43.2 per cent during the first quarter of this year to a total of 877 tons compared to the same period last year. The import price of butter dropped during the last quarter of 1993, but since then it has increased by 7.6 per cent. The average import price in the first quarter of 1994 exceeded that of the same period last year (by 3.4 per cent).

58. Compared to the first three months of 1993, the import of natural cheese during the first quarter of this year increased by 5.1 per cent, while that of processed cheese remained stable. Compared to the previous quarter, the import price of natural cheese fell to the level of one year earlier, while that of processed cheese remained stable, at 8.6 per cent higher than one year earlier.

Hungary

59. Skimmed milk powder production decreased by 18 per cent to 0.9 thousand tons in the first quarter of this year as compared to the first three months of 1993. Total domestic consumption increased by 9 per cent to 1.2 thousand tons. Imports amounted to 0.2 thousand tons in the first three months of 1994. Stocks of skimmed milk powder decreased by 37½ per cent to 0.4 thousand tons during the first quarter of 1994.

60. Whole milk powder production, for the first quarter 1994, remained at the same level as the year earlier (i.e. 0.9 thousand tons). Consumption decreased by 10 per cent to 0.9 thousand tons. There was no significant trade in whole milk powder, and stocks were at the same level at the end of the period as they were a year earlier.

61. Butter production dropped significantly by 20 per cent to 3.2 thousand tons. Exports fell even more, to 100 tons from 1.1 thousand tons a year earlier. However, the export prices for this small quantity increased to US$2,685 per ton. No imports took place in the first quarter of 1994. There was a slight decline in butter consumption. Cheaper local and imported margarine is a major substitute for butter; therefore, a further moderate decline in butter consumption is foreseen. Butter stocks were reduced to half the level they were at the end of the first quarter of 1993.

62. Cheese production increased by 3 per cent to 11.5 thousand tons, while exports were 25 per cent below those of a year earlier. Imports increased by 275 per cent, from 0.4 to 1.1 thousand tons. Domestic consumption also increased, partially due to the big variety of domestic and imported cheeses available. The average export price level of cheeses was at US$3,280 per ton; that is a major improvement compared to the prices achieved a year earlier.

Bulgaria

63. The general conditions for the dairy sector in the beginning of 1994 have not changed significantly in comparison with the same period in 1993. Although detailed information concerning production, imports and exports of dairy products was not yet available, no reversal was expected in the existing negative trends.

Argentina

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

65. For the first quarter of 1994, production of skimmed milk powder increased from 4.6 thousand tons in the first quarter of 1993 to 6.5 thousand tons in the first quarter of 1994. Total imports remained stable at around 1 thousand tons while exports dropped sharply from 3.7 thousand tons in the first quarter of 1993 to 1.3 thousand tons in the first quarter of 1994. Stocks at the end of the first quarter of 1994 at 8.8 thousand tons where unchanged compared to their level a year earlier.

66. Production of whole milk powder increased from 17.1 thousand tons in the first quarter of 1993 to 19.2 thousand tons in the first quarter of 1994. Imports decreased from 850 tons to 350 tons

and exports decreased also from 1.2 thousand tons to 300 tons. Domestic consumption decreased sharply from 18.3 thousand tons in the first quarter of 1993 to 11.3 thousand tons in the first quarter of 1994. Stocks at the end of the first quarter of 1994, at 14.5 thousand tons, remained stable compared to their level one year earlier.

67. Butter production remained stable at 12.4 thousand tons in the first quarter of 1994 compared to the first quarter of 1993. Imports and exports remained at low levels in that period. Total consumption dropped sharply while stocks remained at the same level at the end of the quarter compared to their level one year earlier.

68. Production of cheese in the first quarter of 1994 amounted to 78.5 thousand tons, an increase by 12 per cent over the corresponding period of 1993. Imports increased from 300 tons to 700 tons; exports increased also from 700 tons to 930 tons in the first quarter of 1994. Internal consumption decreased while stocks remained at the same level as in the previous year.

69. The range for Argentinean export prices in the first quarter of 1994 were as follows:

	US$ per ton (f.o.b.)
Skimmed milk powder	2,910
Whole milk powder	1,460-2,910
Butter	1,400-2,110
Cheese	3,400-5,530

European Communities

70. The representative of the European Communities recalled that the Commission had proposed (to the Council) 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. 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.

71. 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 900 thousand tons to 550 thousand tons because the country had failed to meet the production target. Since then, investigations provided satisfactory justification that the 900 thousand ton increase should be maintained for 1994/95. Ministers will make decisions on all these proposals in a week.

72. The market situation in the European Union was stable with prices for the intervention products close to the intervention price levels. However, producer prices for milk were decreasing. This was probably in anticipation of the butter price decrease which will take effect on 1 July 1994.

73. Data on the EC dairy sector in the quota year 1993/94 and in the first quarter of 1994, indicating the changes from the previous quota year and from the corresponding quarter of 1993, were as follows:

	April 1993-May 1994 April-1992-May 1993	January-March 1994 January-March 1993
Milk deliveries	- 0.6 %	- 1.0 %
Production		
Skimmed milk powder	+ 2.7 %	- 6.4 %
Whole milk powder	- 0.7 %	+ 5.7 %
Butter	- 1.2 %	- 4.6 %
Cheese	+ 2.3 %	+ 2.2 %

74. Consumption of fresh dairy products was continuing to increase by 1 per cent per year. Cheese consumption was increasing annually by 1 to 2 per cent. Butter production continued to decrease; however, the trend of declining consumption seemed to have levelled off. The butter price in the European Union on average was about 92 to 93 per cent of the intervention price of ECU 280.33 per 100 kgs., while the skimmed milk powder price was about 98 per cent of the intervention price. The skimmed milk powder price firmed by about 1 per cent in the past week.

75. Intervention purchases of butter up to May 1994 amounted to 16 thousand tons, about 40 per cent less than during the same period in 1993. The total quantity of butter bought in 1993 was 32.2 thousand tons. Skimmed milk powder purchases had been taking place since 1 March but the weekly level of purchases had been decreasing in recent weeks. The total quantity bought since 1 March was about 50 thousand tons. The total quantity bought in 1993 amounted to less than 11 thousand tons.

76. Public stocks of butter were presently at 110 thousand tons and private stocks at 80 thousand tons. At present, skimmed milk powder stocks were at 80 thousand tons.

77. The butter and skimmed milk powder markets continued to be supported through consumption aids. The volume of butter taken up by the pastry and ice-cream industry in January through May 1994 was 200 thousand tons, 16 per cent more than in the corresponding period of 1993. Most of this butter came directly from the market as only 37 thousand tons were taken from intervention stores.

78. The total amount of skimmed milk used in the manufacture of casein and for animal feed purposes with subsidies during the first four months of 1994 was about 5 per cent below the corresponding 1993 level. However this overall reduction hid very different performances in the different sectors. The animal feed sec used about 2 per cent more in 1994 than in 1993, while the casein sector used almost 18 per cent less than in the corresponding period of 1993.

79. There were no sales of skimmed milk powder from intervention in 1994. Apart from the butter sold from intervention for use in the food industry, certain quantities of butter were sold from intervention for export to the former Soviet Union and some quantities were sold for export as butter oil to unspecified destinations.

80. The data on export quantities of dairy products from the European Union in 1993 was now complete. Compared with 1992 the following changes were recorded in 1993:

Fresh products	+ 18 %
Condensed milk	+ 2 %
Skimmed milk powder	- 28 %
Whole milk powder	+ 2 %
Butter	- 24 %
Butter oil	- 7 %
Cheese	+ 12 %

81. During the first months of 1994, compared with the corresponding data for 1993, European Union export quantities showed the following changes:

Fresh products	+ 9 %
Condensed milk	- 25 %
Skimmed milk powder	- 61 %
Whole milk powder	- 2 %
Butter	- 59 %
Butter oil	- 55 %
Cheese	+ 42 %

82. On 29 April 1994, the export refunds on all products, except butter, butter oil and skimmed milk powders were reduced by 5 per cent.

83. The European Union's export offer prices for the second quarter of 1994 were estimated as:

	US$ per ton
Skimmed milk powder	1,520-1,620
Whole milk powder	1,500-1,600
Butter	1,350-1,500
Butter oil	1,[illegible]0-1,800
Cheddar cheese	1,800-1,900

84. The representative of the European Union expressed concern about important increases in recent years in deliveries in the southern hemisphere. Some difficulties could arise if the production increases continued as in the past.

Australia *(Subsequent to the meeting, the following statement was provided for inclusion in the report.)*

85. Australian milk production (July-March) was almost 10 per cent above the corresponding period in 1992/93. Milk production was higher in all States. The main reason for the increases in milk production was on-going favourable seasonal conditions - with only modest increases in cow numbers. There had been some increase in the use of supplementary feeding. National milk production in 1993/94 is forecast to be around 7,700 million litres, up around 8 per cent on 1992/93 final production. Despite the increased milk production, 30 June 1994 stocks are not expected to be excessive, and most manufacturers consider likely stock levels to be manageable.

86. There has been some improvement in the Australian economy, with an associated recovery in domestic market demand for dairy products. The increased demand for dairy products had been across both household/retail outlets and the increasingly important non-retail sector. Retail cheese

sales are currently around 3 per cent higher than last year. Sales of butter/blends were up by a similar amount - due mainly to increased sales of dairy blends. The improved domestic market economy was reflected in increased demand for fast food (a major user of Cheddar and Mozzarella-type cheese) and to a lesser extent, prepared/frozen foods.

87. Progressive deregulation of the liquid milk market encouraged new product development and more activity in marketing strategies. Although overall demand for milk was relatively static, there had been increased trial purchases of new products with associated altered consumption patterns. The underlying shift towards low fat/diet lines continued across all sectors of the dairy market - from liquid milks through to cheese, yoghurts and spreads. In the spread market, a major growth sector was mono-unsaturated (canola based) margarines.

88. The international dairy products market was generally stable despite the seasonal rise in milk production in the northern hemisphere. Butter and anhydrous milk fat prices remained depressed, but prices for most other major traded products firmed during May. Any gains for Australian exporters resulting from firming world prices had to some extent, been offset by the strengthening of the Australian dollar against the United States dollar in recent months.

89. While it was still too early to fully gauge the price impact of the twelve-month suspension of the IDA minimum prices for butter and anhydrous milk fat, there were reports of butter prices in the range of US$1,050-US$1,200 per metric ton and anhydrous milk fat prices at around US$1,500 per metric ton.

90. Partly as a result of decreased milk production (from adverse seasonal conditions) and partly as a result of increased cheese production, butter output in the major producer States of the European Communities was down by between 5 and 7 per cent compared with the same period last year. These production declines resulted in butter prices remaining above the current buying-in price for public intervention in most States. Total EC public butter stocks continued to decline, aided by the continued strength of subsidized domestic sales, and steady export sales to the FSU countries. Sales of intervention butter to the FSU so far this year totalled 13,685 metric tons. EC public butter stocks at the end of May were 118,680 metric tons which was 32 per cent below their level twelve months ago.

91. In the United States, reduced domestic prices resulted in some renewed butter sales to the CCC, the government intervention buying agency. Although around 3,000 metric tons of butter were sold to the CCC in the week to 27 May, United States public butter stocks remained relatively low. These stocks totalled 91,380 metric tons at 27 May which represented less than half their level at the same time in 1993.

92. Skimmed milk powder was currently trading in the vicinity of US$1,500 per metric ton. This is US$300 above the IDA minimum price of US$1,200 per metric ton and represents a marginal decrease since the March 1994 IDA meeting.

93. EC skimmed milk powder output for the first four months of 1994 was down by over 60,000 metric tons compared to the same period in 1993. EC wholesale prices for skimmed milk powder are generally slightly below the full intervention price, but after taking into account the costs and payment delays associated with sales to intervention, the net returns were roughly equivalent. As a result, sales of skimmed milk powder to intervention had been limited. Since public stocks re-opened on 1 March, some 27,000 metric tons of skimmed milk powder were accepted. Total intervention stocks at the end of May of 57,746 metric tons were modest by historical standards.

94. In the United States, good seasonal conditions in April and May saw milk production in the twenty-one major dairy producing States rise by around 1 per cent. The larger volumes generally had

a depressing effect on wholesale dairy (including skimmed milk powder) prices. The fall in prices has resulted in renewed sales of skimmed milk powder to CCC stockpiles in May, with 1,100 metric tons of skimmed milk powder sold to stockpile in the week ending 27 May.

95. Buttermilk powder prices were currently in the range of US$1,200-US$1,250 per metric ton. This is only marginally above the IDA minimum price for buttermilk powder of US$1,200 per metric ton.

96. Whole milk powder prices were currently in the range of US$1,475-US$1,500 per metric ton, or US$225-US$250 above the IDA minimum price of US$1,250 per metric ton. This represents a modest increase since the March 1994 IDA meeting. Whole milk powder prices are usually lower than skimmed milk prices, reflecting the lower value of fat relative to protein.

97. The European Communities cut export subsidies for whole milk powder and cheese, effective from 29 April and this will have a positive effect on international whole milk powder prices. The full impact of these cuts on world prices may be delayed until later in the year as EC traders can prefix subsidies up to six months. However, the surprise nature of the announcement should have limited the amount of prefixation taken up by traders. Future demand prospects for whole milk powder are mixed. Algeria and the FSU, key markets for whole milk powder, still have internal economic difficulties. Counteracting these difficulties is the possibility that there will be continued demand in Asian and Latin American countries.

98. Confidence in the cheese market was generally holding. Price levels were essentially unchanged since the March IDA meeting. Bulk Cheddar was currently trading in the range of US$1,650-US$1,900 per metric ton or between US$150-US$400 above the IDA minimum price of US$1,500 per metric ton.

99. In the United States there was some reduction in the domestic wholesale price for cheese as a result of unexpectedly high seasonal volumes of milk due to favourable weather conditions. However, the unexpected 29 April EC export refund cut for cheese was expected to maintain confidence in the world cheese market. In recent months, cheese production had been increasing in the EC at the expense of butter and skimmed milk powder production.

100. Japanese cheese production for the Japanese fiscal year 1993 increased by 4½ per cent compared to the previous year, and Japanese cheese imports for the first four months of 1994 of 42,985 metric tons were down 2 per cent on 1993. Demand for cheese from other Asian markets had been steadily increasing in recent years in line with a gradual increase in per capita consumption and greater willingness to embrace Western-style foods.

Canada

101. After the first six months of the current dairy year, industrial milk and cream production was 1 per cent above last year's level. However, it should reach 43.3 million hl., an increase of 3½ per cent compared to last year. This level would represent 0.4 million hl. above the Market Sharing Quota (MSQ). Domestic requirements are forecast at 40.3 million hl., an increase of almost 2 per cent. Production forecast for the next dairy year is also 43.3 million hl. After a reduction last year, fluid milk production should increase slightly to reach 30.5 million in 1993/94. Total milk production should increase by 2 per cent to 73.8 million hl. in 1993/94.

102. Sales of standard milk are still expected to decline while sales of low-fat milk are expected to increase after a reduction last year. This trend should continue for the 1994/95 dairy year. Sales of fluid cream are also expected to increase slightly.

103. Cheddar cheese production is forecast to increase by 8 per cent to 114 million kgs. and consumption by 4 per cent to 109 million kgs. This would be the same level as in 1990/91. Cheddar cheese production and consumption are forecast to stay close to the same level for 1994/95. Specialty cheese production and consumption are still expected to increase by 2 per cent and 3 per cent, respectively. The trend for specialty cheese should continue in future years. Butter production and consumption are expected to drop by 2.4 per cent and 3.6 per cent, respectively, in 1994/95. Consumption of skimmed milk powder should be close to the level of the last two years, while production is expected to decline a bit in 1993/94 and more in 1994/95.

Brazil

104. The observer from Brazil stated that the Ministry of Agriculture had decided that Brazil would join the International Dairy Arrangement as a full member. The necessary steps for the acceptance of the Arrangement will be taken in the coming months.

105. The Committees welcomed the statement by Brazil.

F. Adoption of report to the Council

106. The Committees agreed that a summary report of the discussions at the present session would be submitted to the Council. This report was subsequently circulated as DPC/PTL/43.

G. Date of the next meetings

107. The next regular session of the Committees will be held consecutively on 19-20 September 1994, subject to confirmation by the Secretariat.