GENERAL AGREEMENT ON

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International Dairy Arrangement

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

Report of the Thirty-Sixth Session

(13 December 1988)

Introduction

1. The three Protocol Committees held a joint session on 13 December 1988 to discuss matters concerning the working of the three Protocols.

Adoption of the agenda

2. The Committees adopted the following agenda:

A. Adoption of report on the thirty-fifth session

B. Information required by the Committees:

(i) Replies to Questionnaires (respectively

Questionnaire 2: Milk Fat

Questionnaire 3: Certain Cheeses and

Questionnaire 1: Certain Milk Powders)

(ii) Summary tables

(iii) Other information

C. Transactions other than normal commercial transactions

D. Sales under derogations

E. Review of the market situation for products covered by the Protocols

F. Report to the Council

G. Dates of the next sessions

Adoption of reports on the thirty-fifth session

3. The reports of thirty-fifth sessions were adopted with certain amendments by the three Protocol Committees and distributed in one document, with the new symbol DPC/PTL/1. In this connection, the Committees noted that as from 1 January 1989, the documentation related to the Protocols would be circulated under the symbol of DPC/PTL/- and that the old series of DPC/P/-, DPC/F/- and DPC/C/- would be discontinued.

4. While supporting the proposal for streamlining the documentation, the delegate of Australia stressed that this change would be on the understanding that it was purely an administrative matter with no implications for countries' rights and obligations under the Protocols and for the separate legal identity of the three Protocols, including the possibility of countries belonging to only one or two of the Protocols.

5. The Chairman reconfirmed this understanding and made clear that it was merely an effort to simplify the documentation and its distribution purely for technical and procedural reasons. The change did not have any implications for the status of the Committees nor for participants' right and obligations under the Protocols.

Information required by the Committees

(a) Replies to Questionnaires 1 to 3

6. The Committees reviewed the replies to Questionnaires 1 to 3 and requested participants who had not yet submitted such information in respect of the third quarter of 1988 to do so without further delay. They were also asked to provide information in respect of the fourth quarter of 1988 by 15 March 1989 at the latest.

(b) Summary tables

7. 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 the third quarter of 1988 and issued respectively in documents DPC/F/W/36/Rev.3, DPC/C/W/35/Rev.3 and DPC/P/W/34/Rev.3.

(c) Other information

8. The Committees took note of the information which the secretariat had compiled on production, trade, stocks and consumption of dairy products in the United States. Data related to the third quarter of 1988 and also gave forecasts for the fourth quarter of 1988.

9. The Committees were informed that no new sales had been reported under the United States Dairy Export Incentive Program adopted in February 1987.

10. Expressing his deep concern at the United States dairy situation, the spokesman of the Community said that even though the Dairy Export Incentive Program had so far remained dormant, the situation was likely to change in the near future. Despite the drought, dairy production in the United States had increased in 1988 and indications were that it would further be accelerated in 1989. On the other hand, the consumption of dairy products, particularly of cheese, had relatively dropped, which was a source of some concern to the EC, since it was an important exporter to this market. The

world market was likely to be upset if the current United States developments continued. It was also regrettable that the EC proposal to invite the United States to rejoin the International Dairy Arrangement was blocked by Australia. Being an important exporter and importer of dairy products, the participation of the United States would have made the Arrangement more credible and effective. At present, there were serious gaps in the information available regarding this market. The consumption figures for 1988 were missing in the GATT document. This omission should be rectified by the secretariat to facilitate a more meaningful analysis of the United States dairy market situation. Moreover, forecasts of United States milk production in 1989 were also essential to monitor future developments.

11. Concurring with the views just expressed, the representative of New Zealand observed that substantial amounts had been funnelled into the dairy sector of the United States and it was as yet not clear how the next administration would deal with the matter of agricultural support. Failure at the Montreal Negotiations had engendered fears that not much would be achieved in the near future. The international dairy market was very volatile in response to marginal changes in the two big producers - the EC and the United States. The supply restraint discipline recently followed by these two major producers had been conducive to the international dairy situation. This improvement could, however, only be sustained if this discipline was continued in the future also. New Zealand's own production, fluctuating within a narrow band of 6 to 8 million tons of whole milk equivalent annually, for the last 20 years, was only a small percentage of the total world dairy production.

12. The representative of Australia stated that his delegation was not opposed to the rejoining of the International Dairy Arrangement by the United States. The matter could not be resolved earlier due to the linkage made by the EC with the successful outcome of the Uruguay Round. He recalled that the matter of United States participation, at least as an observer, had been discussed at the September 1988 session of the International Dairy Products Council and would be reverted to at the next session of the Council (DPC/31, paragraph 52).

13. The Committees took note of statements made notably on the situation in the United States and considered it appropriate to follow closely further developments on United States' production and trade. It was suggested that the secretariat should attempt to collect more recent data on consumption of major dairy products in the United States and also, to the extent possible, provide forecasts.

Transactions other than normal commercial transactions

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

Sales under derogations

15. The Committee of the Protocol Regarding Milk Fat took note that the EC had not yet effected any sales of butter oil to Bangladesh under the Decision of 22 March 1988 (DPC/F/55). It also took note that exports of old butter to the USSR under the Decision of 12 July 1988 (DPC/F/58) would be completed by the end of 1988. It was hoped that the era of derogations on butter sales was presently over and that the market was now entering a situation with mainly normal commercial sales only.

16. The representative of Australia suggested that the EC should provide a formal final report on sales under all derogations granted for exports of old butter.

17. The Chairman said that the Committee might revert to this question at its next meeting in order to take note of the final figures to be furnished by the EC.

18. The Committee of the Protocol Regarding Certain Cheeses took note that no sales were made in the third quarter of 1988 under Article 7:2 of the Protocol.

Review of the market situation for products covered by the Protocols

19. In the EC, physical stocks of butter, on 31 October 1988, were at 162,298 tons and private stocks (financed by the EC budget) stood at 211,994 tons, giving a total for public and private stocks of 374,922 tons. The decline in one year was very substantial as total stocks on 31 October 1987 had been as high as 1,165,536 tons. The situation of EC's public stocks of skimmed milk powder was even more startling as they were at only 10,000 tons on 31 October 1988. With regard to cheeses, private stocks on 31 October 1988 stood at around 150,000 tons, most of which being Italian type cheeses. Export prices of fresh butter strengthened faster than expected and were now at around US$1,700 per metric ton f.o.b. as compared to US$1,250 per ton f.o.b. in June 1988. Average export prices for skimmed milk powder, recorded in the case of the EC, ranged between US$1,900-US$2,100 per ton f.o.b. They seemed to have reached an upper limit and might stop increasing in the near future. Whole milk powder prices were between US$1,900 and US$2,000 per ton f.o.b. and the market was firm. Prices of Cheddar cheese were fluctuating between US$2,000 and US$2,400 per ton f.o.b. The forecast for 1988 was that the size of the dairy herd would be reduced by 4.5 per cent to 23 million head at the end of the year, while milk deliveries would decline by 3.5 per cent to 98.24 million tons. The forecast for 1989 was that milk deliveries would decline by 1 per cent to 97.2 million tons and the size of the dairy herd would be further reduced by 2 to 3 per cent as compared with 1988. With regard to processed products, butter production in 1988 would decline by 9.5 per cent to 1.73 million tons, skimmed milk powder output would decrease by as much as 19 per cent to 1.31 million tons while whole milk powder production would increase by 8 per cent to 957 thousand tons and cheese production would develop by 2 per cent to 4.68 million tons. For 1989, declines in production in the range of 3 to 4 per cent were forecast according to individual products. Domestic consumption of butter might decrease by 2 per cent, skimmed milk powder disappearance might register a small decline with the assumptions that the existing aids would continue while consumption of cheeses might increase by 1 to 2 per cent.

20. In Japan, domestic milk production in the third quarter of 1988 was 2.3 per cent above the level of the same period of 1987, due to increased demand for drinking milk.

21. Butter production in the third quarter of 1988 was 2 per cent above the level for the corresponding period of 1987. Imports in the third quarter were twelve times higher than their level for the corresponding period of 1987, due to the supplementary quota of 21,000 tons. Average import price in September 1988, was US$1,475 per ton c.i.f.

22. Cheese output in the third quarter of 1988 was 3 per cent higher compared to the level in the same period of 1987. Imports of natural cheese, which accounted for 80 per cent of total domestic cheese consumption, increased in the third quarter by 22 per cent compared with the level in the corresponding period of 1987. Average import price of natural cheese in September 1988 had been US$2,066 per ton c.i.f.

23. Output of skimmed milk powder during the third quarter of 1988 was 6 per cent above the level for the corresponding period of 1987. Imports of skimmed milk powder in the third quarter of 1988 were 53 per cent above the level for the corresponding period of 1987. Concerning skimmed milk powder for human consumption purposes, LIPC had been implementing the import of 22,000 tons of skimmed milk powder decided in May 1988. Average import price in September 1988 was US$1,235 per ton c.i.f. for animal feed purposes and US$1,756 per ton c.i.f. for human consumption purposes.

24. In Hungary, dairy cow numbers declined sharply between 1985 and 1986. However, the decrease had slowed down in 1987 and cow numbers might remain unchanged in 1988 compared to 1987. Despite these facts, total milk production remained stable due to growing milk yields.

25. Stocks of butter at the beginning of the third quarter of 1988, were relatively high, 4 thousand tons, with a production level of 8.3 thousand tons. Consumption had dropped considerably by over 2 thousand tons in the first three quarters of the year, partly due to the increased consumer

prices. Because of lower consumption, imports in 1988 were much lower than in the previous year. There were neither imports nor exports of butter in the third quarter of 1988 and stocks at the end of the period remained at the same high level.

26. Stocks of cheeses at the beginning of the third quarter of 1988 were 4.6 thousand tons. Production had slightly increased to 15.3 thousand tons but considering the year as a whole, the level remained the same. Domestic consumption had dropped by 1.1 thousand tons in the third quarter. Exports in the third quarter of 1988 amounted to 1.5 thousand tons, the same amount as the previous quarter. Hungary's traditional major markets were the Middle Eastern countries with 816 tons destined to this region. Among the EC member countries, one of the significant markets was the Netherlands, with 211 tons in the third quarter of 1988.

27. Production of skimmed milk powder in the first three quarters of 1988 was 18.3 thousand tons compared to 13.9 thousand tons in the corresponding period of 1987. As there were no exports, all the production was used in Hungary and even a smaller amount of imports was necessary. Human consumption had slightly dropped between January and September 1988, but consumption for animal feed purposes had increased by 2.8 thousand tons to 12.9 thousand tons in that period of nine months. Production of whole milk powder at 4.5 thousand tons in the first three quarters of 1988 had been unchanged as compared to the corresponding period of 1987. Domestic consumption had fallen by 0.3 thousand tons while exports and imports had been nil.

28. In Bulgaria, butter production in the third quarter of 1988 had fallen to 5 thousand tons as compared to 6.2 thousand tons in the third quarter of 1987. This indicated that most probably butter production in 1988 would be somewhat lower than in 1987. There were neither exports nor imports of butter in the third quarter of 1988.

29. Cheeses were the most important dairy products for Bulgaria among those covered by the Arrangement. Output of cheeses in the third quarter of 1988 amounted to 32.9 thousand tons - an increase of 6.1 per cent over the same period in 1987. The increase of cheese production in the nine-month period in 1988 was even higher - 10.1 per cent. Exports were marked by a substantial increase; in the third quarter of 1988, exports rose by 41.8 per cent, reaching 6.1 thousand tons. Cheese exports in the first nine months of 1988 expanded by 29 per cent as compared with the same period in 1987. The main export markets were the USSR, Iran and the Federal Republic of Germany. In the third quarter there were no imports of cheeses.

30. There was no domestic production of milk powders. Around 1 thousand tons of buttermilk powder had been imported in the third quarter of 1988.

31. In Australia, milk production in the July-September 1988 quarter was 1,510 million litres, up 1.1 per cent on production in the corresponding period in 1987. Milk production in 1987/88 at 6,116 million litres was 1 per cent down on the 1986/87 level largely due to dry autumn conditions in the major producing States of Victoria and Tasmania. Milk production in 1988/89 was forecast at 6,200 million litres, slightly above the 1987/88 level. Australia was expecting a generally good dairy production season in 1988/89. Raw milk production was expected to rise slightly, reflecting a healthy world market situation and improved seasonal conditions. With regard to the world situation, he said that according to the United Nations Economic and Social Council, milk production in 1988 may have increased by about 1 per cent with production declines in Western Europe being outweighed by increases in the United States (in spite of the drought) India, New Zealand and Eastern Europe (including the USSR). Continued yield/cow improvements in the future were expected to result in further production increases in 1989 in the absence of further control measures.

32. Australian butter/butter oil (commercial butter equivalent) production in the July/September quarter of 1988 was 20 thousand tons, slightly below production in the corresponding period in 1987 of 20.7 thousand tons,

mainly due to the increased production of Cheddar cheese and whole milk powder. Butter/butter oil production in 1987/88 was 94.2 thousand tons, a reduction of 9.3 per cent on 1986/87. Butter/butter oil production for 1988/89 was estimated at 92 thousand tons, 2.3 per cent below the previous year's production. Domestic sales of butter/anhydrous milk fat were expected to decrease marginally in 1988/89. Exports for 1988/89 were expected to be 46 thousand tons, leaving closing stocks of around 17.5 thousand tons, compared to actual exports in 1987/88 of 52.3 thousand tons and closing stocks of 21.5 thousand tons. The international market was strengthening with prices of both butter and anhydrous milk fat up to 25 per cent above their respective GATT minimum prices. Butter was currently trading at around US$1,600 per ton f.o.b. and anhydrous milk fat at around US$1,900 per ton f.o.b. GATT minima had been increased for both butter and anhydrous milk fat at the September 1988 meeting. However, previously low prices for butter had begun to influence production decisions (in the EC through lower intervention prices) and production of butter was falling. World stocks have also been significantly reduced, particularly in the EC due to derogation sales to the USSR.

33. Australian production of cheese in the July-September 1988 period of 42.5 metric tons was about 5.2 per cent greater than for the same quarter in 1987. Production of Cheddar type cheese for the July-September 1988 period of 20.5 thousand tons was up about 3.3 per cent on the corresponding period in 1987; non-Cheddar cheese production increased by about 8.6 per cent from 12.8 thousand tons to 13.9 thousand tons. The greater increase in non-Cheddar types reflected changing demand patterns. Production of cheese for 1988/89 was expected to be 180 thousand tons which was an increase of 2.1 per cent compared with the 1987/88 production of 176.3 thousand tons. Cheddar cheese production for 1988/89 was forecast at 125 thousand tons, up 2 per cent from the 1987/88 level of 122.6 thousand tons; non-Cheddar cheese production for 1988/89 was forecast at 55 thousand tons, a 2.4 per cent increase over the 1987/88 level of 53.7 thousand tons. Exports in 1987/88 were 73.6 thousand tons compared to 57 thousand tons in 1986/87, and in 1988/89 were forecast to reach 65 thousand tons. This peak was due to a number of factors including derogation sales of below export quality cheese of 5.5 thousand tons and

traders bringing forward orders in order to take advantage of higher support rates this year than next year. Domestic sales of Australian cheeses in 1987/88 were 116.5 thousand tons (Cheddar 69.1 thousand tons; non-Cheddar 47.4 thousand tons). Consumption in 1988/89 was forecast to increase to around 118 thousand tons (Cheddar 69 thousand tons; non-Cheddar 49 thousand tons). World supply was expected to remain tight during 1988/89 while demand should continue to be strong. The world price had risen to about US$2,200 per ton f.o.b. Increased demand for cheese was affecting production patterns and production was expected to rise in a number of major producing countries.

34. Australian production of skimmed milk powder/buttermilk powder in the July-September 1988 period of 28.4 thousand tons was 4.7 per cent down on the corresponding period in the 1987 season. The overall decline was due to reduced butter production as a result of the diversion of milk from butter and skimmed milk powder to cheese and whole milk powder production, and the reduction in milk deliveries to processors. Estimated production of skimmed milk powder/buttermilk powder for 1988/89 was 126 thousand tons compared to 127.8 thousand tons in 1987/88. Domestic sales of skimmed milk powder/buttermilk powder in 1988/89 were expected to decrease by 6.8 per cent from 48.8 thousand tons in 1987/88 to around 45.5 thousand tons in 1988/89. Exports in 1987/88 were about 77.4 thousand tons; skimmed milk powder 73 thousand tons; buttermilk powder 4.4 thousand tons, down 13.7 per cent, reflecting decreased production levels. Exports in 1988/89 were forecast at about 81.8 thousand tons; skimmed milk power 76 thousand tons; buttermilk powder 5.8 thousand tons. Closing stocks for 1988/89 were forecast at 8.6 thousand tons. The international market for skimmed milk powder was continuing to strengthen. Current prices for skimmed milk powder were in the range of US$2,000-US$2,100 per ton f.o.b. Skimmed milk powder supply was expected to remain tight for the remainder of 1988/89 and prices were continuing to rise.

35. Australian production of whole milk powder in the July-September 1988 period at 17.8 thousand tons, was an 11.1 per cent increase over the corresponding period in 1987. Production in 1987/88 was 63.7 thousand

tons, down slightly on 1986/87 production of 65.3 thousand tons. Production was forecast to increase in 1988/89 by 9.8 per cent to 70 thousand tons in response to the continuing trend in international market demand. Domestic sales of whole milk powder were expected to decrease by around 5 per cent in 1988/89 to 13.5 thousand tons. Exports in 1988/89 were forecast at 57 thousand tons compared to 49.6 thousand tons in 1987/88 reflecting increased production levels. Closing stocks for 1988/89 were forecast at 6.7 thousand tons. Recent quotes for whole milk powder on the international market had been in the vicinity of US$2,000-US$2,100 per ton f.o.b., indicating that the market was continuing to strengthen. World production of whole milk powder was increasing, following demand patterns and reflecting lower relative demand for butter.

36. In Argentina, milk production increased in the first four months of 1988 compared to the same period of 1987. However, because of the drought which hit later all the dairy producing regions, milk production decreased in the subsequent months. Consequently, the forecast for the year 1988 as a whole was for a decline in milk production by 3 to 5 per cent compared to 1987. The lack of rains and the dry conditions persisting presently in certain dairy producing regions had the consequence of reducing feed reserves. This situation might produce negative consequences for milk production in 1989. Domestic consumption of dairy products decreased in 1988 because the purchasing power of the salaries had diminished due to monetary inflation. With high dairy stocks at the beginning of this year, a decreasing internal consumption and with increasing international prices, exports increased in 1988 despite the decline in production. The main export items in the January-September 1988 period were cheeses (6,965 tons), whole milk powder (4,340 tons), skimmed milk powder (4,182 tons) and casein (272 tons). The 1989 outlook depended highly on weather conditions. If normal conditions prevailed, a return to the levels of 1987 might be possible.

37. In Switzerland, milk deliveries had recovered slightly for the period November/October 1987/88, reaching 2.97 million tons, up 0.33 per cent on the previous twelve-months' period. Butter production had for the period

January-September 1988, increased by 3.6 per cent, mainly as a result of an unusually high production in the third quarter of 1988, and imports had been reduced correspondingly. There had also been a slight decline in butter consumption. Butter stocks at the end of the third quarter of 1988 amounted to 6,363 tons, more than one and a half times the stocks one year earlier. Butter prices had increased and were in October 1988 SwF 19/kg. for table butter. Cheese production had increased by 2.5 per cent for the period January-September 1988, amounting to 98.9 thousand tons. Imports had remained stable at their previous level. Cheese exports also were of the level of last year, but an upward trend was nevertheless observed notably during the third quarter of 1988. Stocks of cheese at the end of September 1988, were 1 per cent higher than a year earlier, and considered at a normal level. Export prices for cheese were in the range of US$6,000 to US$6,500 per ton. There were only little changes in production and trade for whole milk powder and skimmed milk powder and stocks at the end of September 1988 amounted to 1,900 and 2,200 tons, respectively.

38. In Sweden, milk production seemed to have increased slightly in 1988. No forecast for 1989 was as yet available, but it was noted that the number of cows had declined by 2.8 per cent from June 1987 to June 1988. There had been a fall in production and trade for butter in the third quarter of 1988 compared with the same period in 1987. Butter consumption had continued to fall, confirming the downward trend. For December 1988, the average export price for butter was US$1,400 per ton f.o.b. For cheese, there had been substantial increases in production and consumption in the third quarter of 1988. Cheese consumption was expected to expand further in 1989, while production was expected to decline. In the third quarter of 1988, both imports and exports of cheese were significantly higher than for the corresponding period of 1987, reaching 4,300 and 1,100 tons respectively. Increased cheese production in the third quarter of 1988 had entailed reduced production and exports of skimmed milk powder by 40 and 85 per cent, respectively. Average export price for skimmed milk in September 1988 was US$1,700 per ton f.o.b. In 1989, skimmed milk powder production was forecast to recover to the 1987 level.

39. Total milk deliveries in Norway were still declining. Due to the tightening of the quota system, deliveries were down 3.3 per cent for the first nine months of 1988 compared to the same period of 1987, and total deliveries of milk would reach the accurate planned level of 1,800 million litres in 1988. The forecast for 1989 was a production at the same level. As regards butter, both production, domestic consumption and exports, were considerably down the first nine months of 1988 compared to the same period of 1987. On the other hand, estimates for 1988 suggested that total production of butter this year would exceed that of 1987. This is because consumption of skimmed or light milk was still increasing at the expense of the consumption of whole milk. The Norwegian dairies were seeking alternative uses of the milk fat. For cheeses, both production and consumption in the first three quarters of 1988 were more or less equal to their levels of the same period of 1987. Exports in this period were up 10 per cent compared to 1987. Exports of cheeses in 1988 exceeded exports of last year and stocks were reduced. For 1989, production of cheeses were expected to be the same as in this year. As regards skimmed milk powder, the situation remained unchanged and all production in the third quarter of 1988 was returned to producers for animal feed.

40. In Finland, milk deliveries during January-October 1988 had declined by 6 per cent compared to the corresponding period in 1987. Average yield had not recovered from a relatively low level in 1987. One reason for this was a reduced use of feed concentrates to compensate for a poorer than normal quantity and quality of domestic feeds. Another reason for the decline was an increasing number of exits from the industry following the dairy cessation scheme implemented this year. Estimated deliveries had been reduced by another 30 million litres to 2,530 million litres which meant a decline of 165 million litres from last year. Concerning next year's production, a cautious estimate suggested a milk production of 2,470 to 2,530 million litres. Cheese production was expected to expand further in 1989, while for other products there would be a decline. Exports of all dairy products were expected to decline.

41. South African milk production was for 1988 more or less at the same level as the previous year. The production of milk during the third quarter of 1988 exceeded consumption as usual. A butter production of 4,028 tons was anticipated for the fourth quarter compared to 4,174 tons during the July to September quarter - a 3.5 per cent decrease, but was nevertheless 15 per cent higher than that of the corresponding period last year. Local consumption was expected to be around 3,900 tons. No imports were expected during the fourth quarter of 1988 and exports would be negligible. At the end of December 1988, stocks were expected to amount to 2,864 tons. A cheese production of 11,300 tons was expected for the fourth quarter of 1988. Cheese consumption during October to December 1988 was expected to reach 10,900 tons, the same as the previous quarter and the same quarter of 1987. No imports or exports of cheese were envisaged. Cheese stocks by the end of December 1988 were expected to amount to 7,746 tons, 30 per cent lower than at the end of 1987. Skimmed milk powder production during the third quarter was much higher than anticipated by the South African Dairy Board following an increase in the production of milk. The level of cheese stocks was at a reasonable level and all additional milk therefore went into skimmed milk powder. A high production of 5,422 tons (i.e. a 5 per cent increase) was expected during the fourth quarter of 1988. Consumption of skimmed milk powder was high during the third quarter of 1988, but was expected to decrease to 4,124 tons during the fourth quarter. A small amount of skimmed milk powder had been imported during the third quarter, but there would most likely be no trade during the fourth quarter. By the end of 1988, stocks were expected to reach 6,000 tons, 60 per cent higher than at the end of 1987. Production of whole milk powder would remain more or less at the same level as the third quarter of 1988 and a production of 2,358 tons was expected for the fourth quarter. Consumption of whole milk powder during the third quarter was as anticipated and was expected to reach 2,560 tons for the fourth quarter.

42. In reply to a question by the Community representative concerning the South African import regime for cheese, the representative of South Africa said that this was the competence of the Dairy Board. He would, however, seek more substantial information and report fully on the matter later.

43. In Poland, both production and consumption of butter had in the third quarter of 1988 been slightly lower than in the corresponding period of 1987, amounting to 84.5 and 82.1 thousand tons, respectively. Imports at 556 tons had been much lower than earlier in the year. There had at the same time been a considerable reduction in the production of cheese, a further increase in consumption and rather high imports of 3.7 thousand tons. Skimmed milk powder production had reached 51.5 thousand tons in the third quarter of 1988, 6 per cent above that of the corresponding period of 1987. Consumption both as food and feed had increased. Stocks at the end of September amounted to 12.8 thousand tons, 20 per cent lower than a year earlier.

44. The New Zealand representative reported that the process of adjustment in international dairy markets to reducing supply pressures was continuing at a rapid pace. Supplies of most products were tight, in some cases very tight, with export prices firm to very strong. Whereas until recently the markets mainly affected were for milk powders, casein and to a lesser extent cheese, butter and butter oil markets had now also turned around with the outlook for a much more balanced market and improved export prices.

45. The major cut in milk production in the European Community, coupled with the elimination of accumulated surplus stocks of butter and skimmed milk powder had changed radically the immediate market situation and the medium-term outlook. Prices for milk and dairy products, except for butter, in the Community, had been bid up above nominal support levels. For the first time for many years a "real" market was operating with prices determined by the interaction of supply and demand and not simply resting hard on the support price and this had been translated directly through into higher export prices. The elimination of Community surpluses has coincided with a clear-out of surplus stock in the United States. Supply availability from New Zealand, Australia and other minor exporters was tight with no significant uncommitted stocks available.

46. Parallel with, and closely related to the reduction in surpluses in the Community had been substantial cuts in EC export subsidies for all major products. Since the beginning of 1987, the export refund on skimmed milk powder had been reduced by approximately US$600/ton and the whole milk powder refund by more than US$500/ton. The casein aid had been reduced by the equivalent of approximately US$900/ton of casein. More recently reductions had also been made in the refunds for butter, butter oil and cheese.

47. Measured in terms of US dollars, currency movements had had a significant impact on export prices. Throughout 1987 the steady decline in the US dollar against the ECU progressively increased Community export prices. The extent of movement during the year was approximately 17 per cent. During the first part of 1988, the value of the dollar steadied. The turnaround coincided with the run-up of prices for milk and dairy products within the Community and with reductions in export refunds, and so was overwhelmed and negated by these factors. Later weakening of the dollar further lifted European export price levels.

48. The turnaround of market conditions in itself generated increased demand in some product areas, reinforcing the market trend. Buyers sought to cover their requirements well forward and traders took positions against the expectation of higher future prices. This snowballing effect might not endure but had been an important factor in the market.

49. A first substantive step in moving butter and butter oil prices up from the depressed levels of the 1985/87 period was taken in March 1988 with the increase in the GATT minimum prices. This was made in conjunction with a reduction in EC export refunds, a lift by the Dairy Board in its offer prices and parallel action by other exporters to secure the new minimum prices. Since then prices strengthened further and notably, more recently in the case of the EC, the firming of domestic market prices following the commitment of a further 100,000 tons of butter to the Soviet Union in July, had a positive impact on export prices. The Commission had not granted an "unpublished" export refunds for butter since the end of

June and this also had a positive influence on the market. More important however, were further reductions in the published refunds which, in the case of butter, were reduced by US$100/ton on 25 August and by a further US$185/ton on 14 October. In the case of butter oil, the Commission stopped granting special refunds and made further reductions in the ordinary refunds of respectively US$105 and US$225/ton. Prices firmed strongly into the range of US$1,660-US$1,880/ton f.o.b. in the case of butter and to above US$2,100/ton f.o.b. in the case of butter oil.

50. Markets for skimmed milk powder remained extremely tight with export prices high and with further increases likely. Uncommitted stocks were not available from Europe, the United States nor Canada and supplies from Australia and New Zealand were committed well forward. Prices were in December 1988 in the range of US$2,000-US$2,270/ton f.o.b. In August the Commission reduced the skimmed milk powder export refund by US$125/ton and a further reduction of US$100/ton was made in October. Further price increases might be slowed as prices had reached a level where product can be sourced out of the United States without subsidy and substantial sales had already been made from that source and lifted in prices there. Whole milk powder prices equally firmed in December 1988, reaching a range of US$2,000-US$2,200/ton f.o.b. EC export refunds were reduced in October.

51. Export prices for cheese moved in line with adjustments for other products. EC export supplies tightened and prices firmed, assisted by substantial reductions in export refunds. Prices for Cheddar were generally in the range of US$2,060-US$2,255/ton f.o.b.

52. Markets and prices for casein were dramatically affected by the same factors which continued to bolster skimmed milk powder prices over the last six months, with developments in the EC being of dominant influence. The reduced availability and higher prices for skimmed milk in the Community resulted in higher casein prices as manufacturers passed on higher raw material costs. On top of this, the aid paid on casein manufacture was reduced on several occasions. The casein aid reductions and the high skimmed milk costs lifted Community casein prices very steeply over the

last twelve months. This price movement was fully matched by increases in New Zealand export offer prices. For acid casein, the New Zealand Dairy Board prices for shipments in October to December 1988 were generally in the range of US$5,400-US$5,750/ton delivered (acid casein basis).

53. In Uruguay, milk production in the third quarter amounted to 121 thousand tons, a slight increase of 0.6 per cent compared to the same period in 1987. At the same time, butter production reached 2,241 tons, 18.5 per cent more than in the third quarter of 1987. 5,531 tons of butter had been exported at the minimum price and buyers claimed that offers had been made asking for prices lower than that. Domestic consumption had decreased by almost 10 per cent, but stocks had nevertheless declined. Cheese production in the third quarter 1988 at 2,948 tons were down by 15 per cent compared to the same period 1987. Exports also decreased amounting to 882 tons, and the prices obtained ranged from US$1,800 to US$2,250 per ton for soft cheese and US$2,880 to US$3,600 per ton for hard cheese. Domestic consumption, at 2,763 tons, was in the third quarter 1988 only four-fifths of what it had been in the corresponding period of 1987, and stocks at the end of September 1988 had increased by 62 per cent to 3,197 tons. Skimmed milk powder production, at 1,778 tons in the third quarter 1988, was 18 per cent up on the same period of the previous year. Exports were down to 462 tons from 791 tons in the third quarter 1987, with prices obtained being in a range between US$1,400 and US$1,560 per ton f.o.b. There was some increase in domestic sales, but stocks at the end of September 1988, amounting to 993 tons were more than twice as high as one year earlier.

54. The observer from the Economic Commission for Europe reported that in November 1988 cow numbers in State and collective farms in the USSR amounted to 28.5 million head, indicating a decline of about 1 per cent to November 1987. During the first ten months of 1988, milk output on State and collective farms was 4 per cent higher than the corresponding period of 1987. This was achieved with reduced cow numbers and thus entirely due to an increase in milk yields. If this trend persisted, production might continue to rise also in 1989 with a percentage increase of between 2 and

3 per cent. From January to October 1988, butter production increased by 4 per cent and a similar percentage increase was forecast for the whole of 1988 and with a continuing expansion also for 1989. Cheese production in 1988 was estimated to have increased by about 3 to 4 per cent and that of milk powders by about 3 per cent.

55. The Committees took note of the information provided, and of the various statements and comments made.

Adoption of report to the Council

56. Pursuant to Article VII:2(a) of the Arrangement and in accordance with Rule 22 of the Rules of Procedure, the Committees adopted their report to the Council. This was distributed in document DPC/PTL/2.

Dates of the next sessions

57. The next sessions of the Committees will be held on 20-21 March 1989, subject to confirmation by the secretariat. The session of the Protocol Regarding Certain Milk Powders will be followed by the Committee of the Protocol Regarding Milk Fat and then the Committee of the Protocol Regarding Certain Cheeses.