

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

RESTRICTED

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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 Thirty-Seventh Session

(9 March 1989)

Introduction

1. The three Protocol Committees held a joint session on 9 March 1989 to discuss matters relating to the operation of the three Protocols. The date of the meeting had been advanced from the scheduled 20-21 March 1989 to 9 March 1989, due to certain technical reasons.

Adoption of the agenda

2. The Committees adopted the following agenda:

- A. Election of the Chairman and Vice-Chairman
- B. Adoption of report on the thirty-sixth session
- C. Information required by the Committee:

(i) Replies to questionnaires (respectively

Questionnaire 1: Certain milk powders
Questionnaire 2: Milk fat and
Questionnaire 3: Certain cheeses)

(ii) Summary tables

(iii) Other information

D. Transactions other than normal commercial transactions

E. Sales under derogation

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

G. Oral report to the Council

H. Date of next meeting

Election of Chairman and Vice-Chairman

3. In accordance with Rule 15 of the Rules of Procedure, the Committees elected Mrs. Jo Tyndall (New Zealand) as Chairperson for 1989-90; while no Vice-Chairman was elected. Tributes were paid to the out-going Chairman, Mr. P. Huhtaniemi (Finland), for the excellent work done during his tenure of this office.

Adoption of reports on the thirty-sixth session

4. The reports of the thirty-sixth session were adopted with certain amendments and distributed in one document DPC/PTL/3. In this connection, it was noted that the adoption of a single report relating to three Protocols was an important step in the direction of improved working methods and also facilitated the task of expeditious filing of the documentation.

Information required by the Committees

(a) Replies to Questionnaires 1 to 3

5. The Committees reviewed the replies to Questionnaires 1 to 3 and requested participants who had not yet submitted such information in respect of the fourth quarter of 1988 to do so without further delay. They

were also asked to provide information in respect of the first quarter of 1989 by 15 June 1989, at the latest.

(b) Summary tables

6. The Committees took note of the summary tables based on information furnished by participants in Tables A and B of the questionnaire in respect of skimmed milk powder and whole milk powder, milk fat and cheeses in the fourth quarter of 1988 and issued respectively in documents DPC/PTL/W/1, DPC/PTL/W/2 and DPC/PTL/W/3.

(c) Other information

7. 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 fourth quarter of 1988 and also gave tentative forecast for 1989.

8. The view was expressed that the United States was a significant producer and exporter of dairy products and therefore the question of more formal direct contact with it for up-to-date statistics merited further reflection. In the meantime, the secretariat should continue to improve the presentation of the available information.

Transactions other than normal commercial transactions

9. Referring to the recent discussions in the FAO Consultative Sub-Committee on Surplus Disposal, the delegate of New Zealand informed the Committee of the United States' intended donation of some 4,000-5,000 tons of butter to Poland under the legislation passed by the Congress recently. Efforts were being made to find out the essential terms of this donation, which would potentially disrupt the normal channels of trade since Poland had recently been a significant importer of butter on commercial terms. However, the indications were that commercial sales to this market from some traditional exporters were suffering due to the butter donation from the United States.

10. The EC spokesman shared the concern expressed by New Zealand and agreed that more details should be provided by Poland which was a member of the International Dairy Arrangement. The Polish delegate took note of the question and promised to provide the information at the forthcoming meeting.

11. Concluding, the Chairperson said that indeed more details concerning the United States' donation of butter would be useful from Poland when the Committee would revert to this matter at its next meeting.

Sales under derogations

12. The Committee of the Protocol Regarding Certain Milk Powders took note that no sales of milk powders under derogations had been reported to the secretariat since October 1985.

13. The Committee of the Protocol Regarding Milk Fat took note that the EC had not effected any sales of butter oil to Bangladesh under the Decision of 22 March 1988 (DPC/F/55). It also took note that deliveries of old butter to the USSR under the Decision of 12 July 1988 (DPC/F/58) had been completed by the end of 1988, and heard a final report by the EC on sales under all derogations granted for exports of old butter. This report was later issued in tabular form in document DPC/PTL/W/4.

14. The Committee of the Protocol Regarding Certain Cheeses took note that no sales had been made in the fourth quarter of 1988 under Article 7:2 of the Protocol.

Review of the market situation for products covered by the Protocols

15. In Argentina, milk production in the fourth quarter of 1988 dropped by 8 per cent compared to its level in the same period of last year, and for the calendar year 1988 the drop was 5 per cent over the previous year. The drop was attributable to the intense drought conditions experienced between April 1988 and February 1989. However, a return to more normal weather conditions was now expected, which would increase milk production in the

second quarter of this year. Consumption of fluid milk and of processed dairy products decreased in the third quarter of 1988 and for the year as a whole, mainly due to a fall in the purchasing power. Exports of dairy products, however, increased in 1988.

16. Production of skimmed milk powder in 1988 was higher than in 1987. Imports decreased, while exports increased. The main destinations of exports, totalling 14,000 tons, were Algeria, Chile, Jamaica, Tunisia and other countries. The production of whole milk powder was also higher in 1988 due to increased domestic demand and exports. Domestic consumption decreased. Imports were almost nil, while exports totalling 18,000 tons were mainly destined to the USSR, Chile, Yugoslavia, Belgium, Algeria and Tunisia.

17. Domestic consumption of butter in 1988 remained stable as compared to the previous year. Total exports of butter were lower than 1,000 tons in 1988.

18. Production of cheese decreased in the fourth quarter of 1988 and for the year as a whole was lower than in 1987. Imports trickled down to almost nil, while exports increased. Domestic consumption decreased. Exports in the fourth quarter of 1988 were substantially higher than those in the corresponding quarter of 1987, but lower than those in the fourth quarter of 1986. Exports added up to 11,000 tons in 1988 and were mainly destined to the United States, Brazil, Canada, Italy and Malta.

19. Argentina also exported small quantities of casein and condensed milk which in global value terms were, however, insignificant.

20. Australian milk production in 1988 recovered from the drought conditions which led to a 1 per cent decline in 1987/88. This trend was somewhat reversed in the last quarter of 1988, when milk production totalled 2,214 million litres as against 2,245 million litres in the same period of 1987. The recovery was expected to continue and production for 1988/89 was forecast to increase slightly from 6.127 million litres to 6,200 million litres. As regards the world situation, the drop in

production experienced in 1987 had largely been reversed and production had increased in most major producing countries and some recovery in demand had, however, combined to produce a more buoyant outlook for milk products.

21. Total skimmed milk powder/butter milk powder production in the last quarter of 1988 was 55,900 tons, showing a decline of 14.3 per cent on the corresponding 1987 period. Estimated production for 1988/89 was 126,000 tons, which would be slightly lower than the level of 127,800 tons in 1987/88. Skimmed milk powder production was forecast to fall from 120,000 tons in 1987/88 to 119,000 tons in 1988/89, while butter milk powder production was likely to drop from 7,800 tons to 7,000 tons over the year. Domestic sales were expected to fall for both skimmed milk powder and buttermilk powder. Domestic consumption of skimmed milk powder was expected to fall by 6.4 per cent from 47,000 tons to 44,000 tons, while that of buttermilk powder was expected to fall by 16.7 per cent from 1,801 tons to 1,500 tons. Exports of both these products were expected to be 81,800 tons - skimmed milk powder 76,000 tons and buttermilk powder 5,800 tons - compared with a total of 80,300 tons in 1987/88. Closing stocks for 1988/89 were forecast at 8,600 tons - skimmed milk powder 8,000 tons and buttermilk powder 600 tons. As regards the world situation, while world stocks for skimmed milk powder remained relatively low, they were not critically low and the rapid rise in prices experienced over recent months was levelling off. Prices peaked around December at US\$1,900-US\$2,100 per ton f.o.b., but had now settled at around US\$1,800-US\$1,850 per ton f.o.b.

22. Production of whole milk powder in the October-December 1988 quarter was 24,000 tons, 11.1 per cent above that for the corresponding period in 1987. At 63,700 tons in 1987/88, the level was slightly lower than in 1986/87, but was forecast to recover to 70,000 tons in 1988/89. Domestic sales of whole milk powder were expected to fall in 1988/89 by 5 per cent to 13,500 tons, while exports were expected to increase by 14.9 per cent to 57,000 tons, compared to 49,600 tons in 1987/88. As regards the world situation, whole milk powder production had generally increased in response to stronger demand and to formerly low butter prices. However, the rise in world prices had levelled off and had settled around the same level as for skimmed milk powder of about US\$1,800-US\$1,850 per ton f.o.b.

23. The situation with regard to milk fat was that production of butter/butter oil in the October-December 1988 quarter was 41,300 tons, which was 9.4 per cent below the corresponding 1987 period. The fall was due mainly to increased production of whole milk powder and cheese. Total butter/butter oil production for 1987/88 was 94,200 tons, as compared to 193,800 tons in 1986/87. Output of butter was forecast to continue its downward trend into 1988/89 with a further decrease of 2.3 per cent to 92,000 tons, while domestic consumption was likely to fall slightly to 50,000 tons from a level of 51,900 tons in 1987/88. Exports of butter/anhydrous milk fat in 1987/88 at 52,400 tons were expected to fall by 12.2 per cent to 46,000 tons in 1988/89. The international market for butter/anhydrous milk fat had substantially improved in recent months and the trend had continued upwards largely due to successful EC stock disposal programmes and cuts in world production in response to previously low world prices. Currently, the world price for butter was about US\$1,600 per ton f.o.b. and for anhydrous milk fat about US\$1,900-US\$2,000 per ton f.o.b. and both appeared to be rising.

24. Australian production of cheese in the last quarter of 1988 was 67,700 tons, of which 47,200 tons were Cheddar and 20,400 tons were non-Cheddar. This represented an overall increase of 3 per cent over production in the corresponding period of 1987. In response to changing demand, production of non-Cheddar cheese was increasing with corresponding decline in Cheddar cheese. In 1987/88, total production of cheese at 176,300 tons compared unfavourably with a level of 177,500 tons in 1986/87. It was, however, forecast to recover in 1988/89 to 180,000 tons. Exports in 1987/88 were 62,700 tons, but were forecast to increase to 65,000 tons in 1988/89. Domestic sales in 1987/88 were 116,500 tons and were expected to increase to 118,000 tons in 1988/89. Australia's imports of cheese subject to the provisions of the cheese tariff quota, continued to be well below the level where the tariff would come into effect. During the period July-November 1988, imports were 4,346.7 tons accounting for only 90.7 per cent of quota available. As regards the world situation, the current buoyancy in the dairy market was led by a recovery in the cheese market. It appeared, however, that with some increase in world production of

cheese, the international prices had begun to ease. Current quotes on the world market were about US\$1,900-US\$2,000 per ton f.o.b., down from a peak of about US\$2,200 in the previous quarter.

25. In reply to the EC comment that Australia had increased its production under a very optimistic forecast for the evolution of world market and that the current improvement was largely due to the EC's restrictive policies, the Australian delegate made it clear that only a slight increase in production was being forecast in response to market forces. Production of dairy products over a longer period was fairly static and was subject to market trends, unlike that in the EC where it was manipulated with the help of government support policies. The medium and long-term outlook was very much linked with the behaviour of major producers with regard to their production policies. His country was lowering State assistance to the industry to make it more responsive to international price signals. In response to another question by the EC as to why the cheese import quota was not being fully utilized, he recounted that about 91 per cent of the quota was at present being fulfilled not because of the impact of the cheese quota but due to the natural market forces and the exchange rate movements. The tariff quota was not taking effect because imports of cheese were well below the quota ceiling. Unlike the restrictive EC tariffs and levies, the Australian measure had a "sunset clause" and was valid only up to 1992.

26. In Bulgaria, milk production fell by 0.2 per cent in 1988. The number of cows remained almost the same as in 1987. Butter production in 1988 fell by 2,500 tons to 23,000 tons. As a result imports increased significantly from 500 tons in 1987 to 4,400 tons in 1988. The exporting countries were France, Netherlands and Austria. There were no exports of butter. The output of cheese in the fourth quarter of 1988 increased slightly to 23,000 tons and for the year as a whole totalled 145,700 tons, i.e. 6.6 per cent more than in 1987. Of this 113,000 tons were white cheese and the rest Kashkaval. Production of white cheeses alone increased by 13.6 per cent while that of Kashkaval by only 0.6 per cent. Exports of cheeses in the fourth quarter increased slightly, but for the year as a

whole, the increase was 19.5 per cent. Exports of white cheeses increased by 21.1 per cent and of Kashkaval by 3.7 per cent. Exports went mainly to traditional markets - the USSR, Iran, and the Federal Republic of Germany. Regarding milk powders, Bulgaria had no exports, but imported 1,500 tons of skimmed milk powder, 2,700 tons of whole milk powder and 6,000 tons of buttermilk powder in 1988.

27. In Hungary, the number of cattle, especially dairy cows, decreased sharply between 1986 and 1987. This trend continued in 1988 also. Due to the increasing yields, however, milk production in 1988 increased by 3 per cent to reach a level of 2,815 million litres. There was a slight increase in the utilization on farms and deliveries to dairies, while consumption in the form of fresh products dropped significantly, by almost 9 per cent, compared to 1987. There was no major change in dairy production and trade, as the bulk of domestic production was geared to domestic consumption.

28. As regards milk powders, production of skimmed milk powder in 1988 at 22,400 tons was over 6,000 tons more than in 1987 when it totalled 15,900 tons. Consumption increased, mainly for animal feed purposes. The production of whole milk powder in 1988 at 5,400 tons was 10 per cent up on the level of the previous year. Domestic consumption fell by 600 tons to 4,100 tons. About 1,000 tons were exported in the fourth quarter of 1988, mainly due to a decline in domestic requirements.

29. As regards butter, stocks at the beginning of October were relatively high, i.e. 3,700 tons, with a production of 8,200 tons in the fourth quarter of 1988. Domestic consumption dropped, partly due to increased consumer prices. On an annual basis, however, there was a slight increase from 32,000 to 34,100 tons in production, while consumption dropped from 36,800 tons to 34,000 tons in 1988. Imports totalled about 1,000 tons, mainly from Austria and Finland. Exports were insignificant.

30. As regards cheeses, stocks at the beginning of the fourth quarter were 5,900 tons. Production at 15,000 tons was at the same level as in the third quarter and for the whole year was 58,300 tons, about 3 per cent more

than in 1987. Domestic consumption at 50,500 tons was down by 4 per cent. Imports remained unchanged at 100 tons as in last year. Exports reached a level of 7,200 tons, partly to traditional markets in the Middle East, which took 3,500 tons, and the rest to European countries (Netherlands) and the United States.

31. Answering the EC question about what types of cheeses were being exported to the Netherlands and to the United States and their average prices, the delegate of Hungary informed that the type of cheese sent to the Netherlands was semi-hard cheese made according to buyers' tastes and the export price was US\$1,800 per ton f.o.b. The type exported to the United States was double cream semi-hard cheese at an average export price of US\$1,600 per ton f.o.b.

32. Japanese production of milk in the fourth quarter of 1988 was 5.2 per cent more than the level in the corresponding period of 1987, due to increased demand for drinking milk.

33. Skimmed milk powder production in the fourth quarter was also 5 per cent above the level in the same period of 1987. Imports in 1988 were 41 per cent more than in 1987. The LIPC imports of skimmed milk powder for human consumption purposes were projected at 25,000 tons, but actual imports by the end of February 1988, totalled 21,159 tons. Average import price in December 1988 was US\$1,306 per ton c.i.f. for animal feed purposes and US\$2,031 per ton c.i.f. for human consumption purposes. Average import price for 1988 was 59 per cent above the 1987 import price.

34. Butter production in the fourth quarter of 1988 was 1 per cent below the level for the same period of 1987. Imports were, however, 12 times more than in the same period of the year before, due to supplementary quota which was fixed at 21,000 tons. By the end of February, 20,998 tons had been imported. Average import price in December 1988 at US\$1,502 per ton c.i.f. was 10.7 per cent above the average in 1987.

35. Cheese output in the fourth quarter of 1988 was 7 per cent more than in the corresponding period of 1987. Imports of natural cheese, which accounted for 80 per cent of total domestic consumption, increased by 26 per cent in the fourth quarter compared to the level in the corresponding period of 1987 and for the year as a whole these imports were 21 per cent higher than in 1987. Average import price in 1988 was 18 per cent more than in 1987. In December 1988, it was reckoned at US\$2,405 per ton c.i.f.

36. In reply to a question by New Zealand whether the upward trend in milk production was due to increased use of milk for manufacturing purposes, the Japanese delegate said that small increases that had taken place in the past few years were in response to increased demand for fluid drinking milk. The Australian study on "Japanese Agricultural Policies - A Time of Change" was still under study by his authorities and therefore any comments on Japan's future policy changes would be premature on his part. He could, nevertheless, confirm that Japanese production of milk was also subject to rigorous supply control measures. More information would be provided only after his authorities had closely examined this study. As to the EC question about whether import procedures of LIPC were to be changed with effect from 1 April 1989 and how they would influence the total quantum of cheese imports, he informed that natural cheese imports had been liberalized and the current tariff rate was 35 per cent. There was an import quota for processed cheese with a duty rate of 35 per cent. A decision had, however, been taken to liberalize the imports of processed cheese with effect from 1 April, following the decision of a panel. The tariff rate would initially be increased to 60 per cent from that date, and later reduced to 50 per cent in fiscal year 1990 and to 40 per cent in 1991. In reply to an Australian question about whether liberalization of the beef market would have an effect on the dairy situation, he confirmed that since two-thirds of the beef supplies were from the dairy cows, any changes in the beef sector would have an effect on the dairy production. He would, however, provide more information regarding this at a later stage.

37. New Zealand's production of milk had normally fluctuated within a narrow band of 6 to 7 million tons of whole milk equivalent annually in the last 20 years, depending on the climatic variations. Extremely favourable weather conditions in 1985/86 led to a record high production level of 349 million kgs. of milk fat, while dry conditions throughout the summer of 1986/87 resulted in a 14 per cent reduction in production to a level of 301 million kgs. With improved weather conditions again in 1987/88, production recovered to 332 million kgs. but the estimates for 1988/89 put the level down by 3 to 5 per cent to about 320 million kgs. due to adverse weather conditions again.

38. In spite of the expected lower level of milk production in 1988/89, the output of whole milk powder was likely to increase by 8.7 per cent to 186 thousand tons in 1988/89 from 171 thousand tons in 1987/88, and the production of cheese was expected to go up by 1.2 per cent to reach a level of 130 thousand tons from 128 thousand tons in 1987/88. Butter (and anhydrous milk fat) production was, however, likely to go down from 280 thousand tons to 253 thousand tons, as was skimmed milk powder from 171 thousand tons to 165 thousand tons, buttermilk powder from 27 thousand tons to 25 thousand tons. Casein output was likely to be reduced by 17.5 per cent from 65 thousand tons in 1987/88 to 54 thousand tons in 1988/89. Overall, the situation was that supplies were very tight with all but marginal volumes of the current season's production committed.

39. Replying to a question by Finland as to how farm gate prices had evolved in the last year, the delegate of New Zealand explained that the farm gate prices were determined fairly conservatively for the season by the New Zealand Dairy Board in the light of international market prices and subsequently changed with the evolution of the market. In May 1988, the farm gate price for manufacturing milk was fixed at \$NZ 3.40/kg. milk fat. As the international market improved, this was increased to \$NZ 4.30/kg. milk fat. Again in February 1989, it was increased to \$NZ 5/kg. milk fat in parallel with an improvement in international prices. This price level would be reviewed again in May 1989. In real terms, however, the current farm gate price was back to the level of 1985-86.

40. It was further stated that soon in the future the Committees would be required to review the levels of minimum prices in the light of recent structural adjustments that had characterized the international dairy market. In his view, this could perhaps be done at the September meeting of the Committees.

41. Another representative of New Zealand told the Committees that the international dairy market was still going through structural adjustments characterized by the liquidation of surplus stocks and the easing of supply pressures, which in turn were affecting international price levels. Significant price improvements had taken place over the past two years for milk powders, in particular, and more recently for butter. In view of the fact, however, that prices were very low in 1986, these improvements only took dairy prices back to their common levels in the 1980's and butter prices had still a long way to go. One major factor in the current improved world market situation was a cut in the EC's milk production and a change in its domestic policies. It was obvious that from now on the level of new production was not as important as the EC policies to stimulate demand, particularly that of milk powders to contain surpluses at the current production level. As far as other suppliers were concerned, the availability was generally tight. New Zealand's own production was down and supplies from Australia, Canada and other exporters were also very tight. Some increase in the United States milk production was expected in 1989, but this would largely be absorbed by increased domestic consumption and would not represent a threat to the international market. Looking at demand, the general impression was that consumption would not be adversely effected as a result of increased international prices, since the recent price increases were essentially supply driven and not dependent on changes in demand. The current strong demand for butter from the USSR was instrumental not only in the strengthening of the butter market but also of other dairy products, such as whole milk powder and cheese.

42. International prices for skimmed milk powder peaked about November 1988 in the range of US\$1,950-US\$2,050 per ton f.o.b. There had been some weakening since then primarily due to developments in the European

Community where efforts to reduce the volume product going into subsidized consumption had resulted in some new supplies coming onto the market and easing of domestic market prices and consequently affecting export prices. The EC export prices since November 1988 had come down by US\$250-US\$300 per ton and were currently in the range of US\$1,750-US\$1,850 per ton f.o.b. Other suppliers had been able to maintain their export prices around the level of US\$2,000 per ton f.o.b., but their position was under threat the longer the EC continued to have these prices at a lower level. As regards whole milk powder, export prices had moved down since November for the same reason as for skimmed milk powder, i.e. weakening of prices in the EC market. The current range was US\$1,800-US\$1,900 per ton f.o.b. As regards butter, the dominant factor influencing the export market currently was the continuing strong demand for imports from the USSR. The major cut in EC milk production was another important factor. Since the last major sale by the EC to the USSR in July 1988, the USSR had purchased 175,000 tons of butter from various exporters at prevailing market prices. Thus, the demand for butter was independent of the improvement of prices during this period and was likely to be maintained in the short and medium term. Elsewhere also, there were prospects for recovery in demand notably from Iran and North African countries - Algeria and Egypt. The United States had significant stocks of butter totalling 65,000 tons, but it was salted butter which was exported only to Iraq and was not really a threat to the current price levels. Currently, the price range for butter was US\$1,750-US\$1,850 per ton f.o.b. Average export prices for butter oil were in the range of US\$2,100-US\$2,200 per ton f.o.b. As regards cheese, the EC prices for hard and semi-hard cheeses had lately weakened to US\$1,800-US\$1,900 per ton f.o.b., showing a substantial reduction of US\$200 per ton. Since the end of 1988, prices for Cheddar were, however, significantly stronger. The EC export prices were in the range of US\$1,900-US\$2,000 per ton f.o.b.

43. The international dairy market was still in the process of adjusting to major changes that had occurred in the European Community in particular. The present improvement in the dairy situation could only be sustained if the major producers followed the disciplines of the International Dairy

Arrangement. One of its priorities, therefore, was to stabilize export prices of milk powders and then to improve butter, cheese and whole milk powder prices.

44. In the European Community, while the cow numbers in 1989 were expected to decline by 1.7 per cent to 22.9 million, the yields were likely to increase by 2.3 per cent from 4,547 kgs. to 4,653 kgs. per cow. Milk deliveries to dairies were, however, expected to be reduced from 98.3 million tons in 1988 to 97.2 million tons in 1989. A further slight decline was projected for 1990. As regards individual dairy products, production of butter was likely to drop by 6.5 per cent in 1989 to a level of 1.59 million tons, while its consumption was expected to recede only slightly by 1.2 per cent to a figure of 1,599 thousand tons in 1989. The output of cheese was expected to increase by 1.2 per cent in 1989, from 4.73 million tons in 1988. Production of skimmed milk powder at 1.32 million tons in 1988 was expected to decline by 4.7 per cent to a level of 1.29 million tons in 1989. Whole milk powder output was also likely to drop by 6.8 per cent, but buttermilk powder production was expected to increase by 7 per cent in 1989. Output of condensed and evaporated milk was expected to recede marginally in 1989 to a level of 1.35 million tons, while production of casein was likely to drop by 2 per cent to a level of 181,000 tons.

45. As regards stocks, public intervention butter stocks at the end of January 1989 stood at 88,743 tons and stocks in the private store at 54,569 tons showed a total of 143,312 tons of butter as against 958,000 tons a year ago. In the case of skimmed milk powder, stocks at the end of January 1989 were only 7,080 tons as against 306,000 tons a year ago. Cheese stocks in private storage totalled 122,000 tons, mainly in the form of Italian type cheeses.

46. Reviewing the general dairy situation, the spokesman of the EC said that currently there was a strong market for butter, whole milk powder and skimmed milk powder. The market for butter oil was slightly weakening, while the demand for cheese was stable. Export prices of skimmed milk

powder were firming up to a level of US\$1,700-US\$1,780 per ton, f.o.b. The situation for whole milk powder was even better and prices were around US\$1,800 per ton f.o.b. Butter prices were slowly going up and at present were in the range of US\$1,750-US\$1,850 per ton f.o.b. Prices of butter oil were around US\$2,200 per ton and US\$2,400 per ton for Cheddar. The demand for butter was steadily strengthening in the USSR after massive EC sales of old butter to this market. Since there was no longer any old butter in the Community, they were obliged to buy fresh butter for their growing consumption requirements.

47. In reply to a question by Australia, the EC spokesman confirmed that the SLOM programme was expected to result in an increase in the milk quota of 600 thousand tons (DPC/INV/4/Add.8). Individual SLOM producers would receive 60 per cent of what they were producing before. The initial quota allocation would be on a provisional basis for the first two years and it would be confirmed only if the producers could utilize up to 80 per cent of the given quotas. Answering another question by New Zealand, he admitted that now that there were no stocks, some difficulties were being experienced by the EC to meet market requirements of butter. Prices were likely to become more volatile with seasonal variations in production levels.

48. A recent survey in South Africa put milk producers at 13,000, the dairy herd at 750,000 cows (with an average herd size of 114 cows) and daily production of 16 litres per cow. It was expected that the adoption of the "milk-is-milk" scheme would lead, through specialization, to improved production per cow unit. The dairy industry experienced a general shortage of products during 1987/88 that was supplemented by imports. Since December 1988, however, milk production had been on the increase, and although dairy stock levels were relatively low, no supply problems existed at this stage. Milk production had shown a steady decline since 1984/85. According to the Dairy Board's estimates, total production of milk would fall by 0.7 per cent in 1988/89. The consumption of milk had been rising steadily but was expected to decrease by 2.7 per cent in 1988/89.

49. As regards skimmed milk powder, production during the fourth quarter of 1988 was higher than anticipated by the Dairy Board, due to an increase in the production of milk. The stock levels of Cheddar and Gouda cheese were also reasonable and all the additional milk therefore went into the production of skimmed milk powder. A production of 6,200 tons was expected during the period January to March 1989 for this reason. The consumption of SMP was expected to be 4,600 tons for the first quarter of 1989. No exports or imports of skimmed milk powder were anticipated during the first quarter of 1989. Stocks were expected to reach a level of approximately £,125 tons by the end of March 1989.

50. As regards whole milk powder, production during the current quarter would remain at the same level as the last quarter of 1988 at a level of 2,300 tons. Consumption of whole milk powder during the fourth quarter of 1988 was comparable with the Board's expectations. Consumption of 2,500 tons was anticipated for the first quarter of 1989. No exports or imports were expected during January to March 1989. At the end of March 1989, stocks were expected to reach a level of 1,650 tons.

51. As regards butter, production of 4,700 tons was anticipated for the first quarter of 1989 compared to 4,749 tons during October to December 1988, showing a 1 per cent decrease. Domestic consumption was expected to be 4,130 tons. No imports were anticipated to take place during the first quarter of 1989, and exports would be negligible. Stocks would be at the level of 2,800 tons at the end of March 1989.

52. As regards cheese, production of 10,300 tons was anticipated in the first quarter of 1989. The expected consumption of cheese during January to March 1989 was at 9,700 tons. No exports of cheese were envisaged, but some imports were likely to take place. Stocks for cheese were expected to be 9,500 tons at the end of March 1989.

53. In Finland, milk deliveries in 1989 were expected to decline further by 2.5 to 5 per cent to a level of between 2,470 and 2,530 million litres. Production of cheese was expected to increase marginally from 82.3 thousand

tons in 1988 to 83 thousand tons in 1989. Production of cheese was likely to increase by 700 tons to 83 thousand tons. Butter output would be in the range of 59-62 thousand tons in 1989 as compared to 61.1 thousand tons in 1988, reflecting more uncertainty in this sector. Production of whole milk powder was expected to fall from 14.2 thousand tons to 7 thousand tons, while that of skimmed milk powder was likely to drop from 28.3 thousand tons to 25 thousand tons in 1989. The consumption pattern was likely to remain unchanged - butter consumption decreasing while cheese consumption increasing. Consumption of skimmed milk powder was slightly decreasing, while there was very little domestic consumption of whole milk powder.

54. In reply to a question by the European Community as to whether the Russian demand for butter was static, he said that exports to that market were determined in the light of the general trade balance. Currently, the trade balance was unfavourable and therefore his country's butter exports had to be cut down even in the face of the growing Russian import demand.

55. In Norway, milk deliveries in 1988 were down by 3.1 per cent as compared to 1987 due to a tightening of the quota system. In the fourth quarter of 1988, these deliveries were down by 2.8 per cent compared to their level in the same period of 1987. Further decline in deliveries was in evidence in 1989, but the forecast for production was that it would remain unchanged at the 1988 level. As regards the production of individual products, the situation was normal in the case of skimmed milk powder. Production of butter in 1988 was 11 per cent down and domestic consumption, which was decreasing due to a general reduction in butter intake on health grounds, was 17 per cent lower than in 1987 and the Norwegian dairies were looking for alternative uses of the milk fat. Exports of butter in 1988 were, however, at about the same level as in 1987. As regards cheeses, both production and consumption in 1988 were more or less equal to their levels of 1987, but exports were 5 per cent higher and stocks had been reduced.

56. Deliveries of milk in Sweden in 1988 at 3,445 thousand tons remained more or less stable at the level of 1987. The forecast for 1989 was that deliveries would be about 2 per cent higher. The number of dairy cows

declined between June 1987 and June 1988 by 2.8 per cent to 560,000 head. The decline was mainly due to the two-price system, which was to be terminated after 1 July 1989.

57. Production of skimmed milk powder in 1988 at 36 thousand tons was almost 10 thousand tons lower than in 1987. In 1989, it was expected to recover to the 1987 level. Consumption of skimmed milk powder, however, recovered by 5 thousand tons to a level of 30 thousand tons in 1988, partly due to the stocking policies of private companies. With the liquidation of these stocks in 1989, consumption might show some decrease. Exports fell by nearly 11 thousand tons in 1988, as a result of reduced production and a strong domestic demand. In 1989, exports were expected to recover, although not to the same level of 1987, but to a total of about 20 thousand tons. Average export price for skimmed milk powder in early March 1989 was US\$1,650 per ton f.o.b.

58. As regards butter, production was slightly up in 1988, but domestic consumption and exports were slightly down. Export price for butter in March 1989 was US\$1,650 per ton f.o.b.

59. Output of cheese at 115 thousand tons in 1988, was substantially higher than in 1987. Consumption, exports and imports increased, although not at the same rate as the increase in production. In 1989, consumption and exports were not expected to change, but imports might increase and production might decrease somewhat.

60. In Switzerland, milk deliveries during 1988 totalled 2.99 million tons and showed an increase of 1.3 per cent over the level of 2.95 million tons in 1987. In 1986, milk deliveries had totalled 3.05 million tons.

61. Regarding different products, output of skimmed milk powder increased by 3.6 per cent from 22,772 tons in 1987 to 23,585 tons in 1988, due to the expectation of an increase in prices at the beginning of the year. There were no imports and exports were insignificant, i.e. 777 tons compared with 9,524 tons in 1987. Consumption had remained stable at around 21,000 tons and seemed to be dropping.

62. Production of whole milk powder dropped by 11 per cent from 14,127 tons in 1987 to 12,559 tons in 1988. Imports increased by 2.7 per cent to 2,692 tons in 1988, and exports also increased to a low level of 543 tons. Consumption also increased slightly. Stocks were, however, low at 1,083 tons at the end of the year.

63. Butter output in 1988 roughly at 30,000 tons was about 5 per cent more than in 1987. A slight increase was expected for 1989 also. Imports had dropped from 11,000 tons in 1987 to 7,882 tons in 1988 or by 31.6 per cent. Consumption dropped by 2.5 per cent in 1988 to a level of 41,726 tons and the decrease was further continuing. Stocks were at the same level as in 1987, at about 5,000 tons.

64. Production of cheeses slightly increased, reaching a level of 126,100 tons in 1988. A further slight increase was expected for 1989. Imports increased by 1.7 per cent to a level of 24,100 tons, despite some visible drop at the beginning of the year. There would be a further increase in imports in 1989. Exports also picked up from 58,700 tons in 1987 to 59,800 tons in 1988 or by 1.9 per cent. Consumption was likely to remain stable at around 89,000 tons. Stocks were at the same level as in the previous year at 21,000 tons, with the exception of Emmental cheese stocks which were still high. It was, however, expected that as a result of the decision to reduce production and with the liquidation of the existing stocks, the excessive stocks would be evened out. Export prices were in the neighbourhood of US\$7,000 per ton f.o.b.

65. In Uruguay, the stagnation in the dairy sector was reversed in 1988 when exports of the principal dairy products increased by 20 per cent. Global figures indicated that while exports in volume terms had shown an increase, in value terms there was a slight drop due to a 2 per cent drop in average export prices. Generally speaking, a significant decline in value terms was in the butter and butter oil exports, while the exports of milk powders, casein and caseinates respectively increased by 10 per cent, 38 per cent and 20 per cent. The evolution of cheese prices, on the other hand, had been erratic. While prices of white cheeses had increased by

7 per cent, prices of hard cheeses and speciality cheeses had fallen by 4 to 6 per cent. These price differentials could be attributed to different demand conditions in the dairy export markets, which affected the overall performance of Uruguay dairy product exporters.

66. The observer of Mexico noted that prices for some dairy products had hit the ceiling and that the market was reasonably buoyant. Unfortunately, however, the international market was so tight that his country had difficulties in buying enough of the milk powder products to cope with domestic demand.

67. The observer from Canada informed the Committees that farm sales of milk during the 1987-88 dairy year (1 August 1987 to 31 July 1988) reached a level of 78.27 million hectolitres, marking an increase of 2.9 per cent over the level of the previous dairy year. Farm sales of milk for fluid purposes rose by 1.7 per cent to 29.75 million hectolitres and sales of industrial milk totalled 46.76 million hectolitres, showing an increase of 3.9 per cent relative to sales in the 1986-87 dairy year. In 1987-88, the number of milk producers registered with the Canadian Dairy Commission fell by 5.6 per cent compared to the number in 1986-87. The market sharing quota (MSQ) for industrial milk was fixed at 46.6 million hectolitres at the beginning of 1987-88, but later revised upwards by 1.5 per cent in order to reflect growth in domestic consumption of industrial milk products. Prices effective from 1 February 1988 were \$47.06 per hectolitre for target returns for industrial milk, \$5.102/kg. for the support price of butter and \$3.013/kg. for the support price of skimmed milk powder.

68. On a commodity-by-commodity basis, there was a dramatic increase in speciality cheese consumption, which was up 10 per cent in 1987-88, as a result of higher disposable income, greater use of speciality cheese such as Mozzarella and pizza cheese in the food service industry and some substitution of Cheddar cheese. Production of speciality cheese grew by 8 per cent to 131.5 million kgs. in order to meet the increased demand. Exports of this cheese increased by 4.5 per cent, indicating development of new export markets. On the other hand, exports of Cheddar cheese decreased

by almost 2 million kgs. in 1987-88 as a result of a smaller volume of milk available for export and less profitable Cheddar returns from the international markets. Consequently, Cheddar cheese production dropped by 2.5 per cent.

69. The consumption of butter did not show any increase in 1987-88 and remained at 97.3 million kgs. However, butter production rose by 7.7 per cent to 102.1 million kgs. Exports of 3 million kgs. of unsalted butter and higher ending stocks accounted for the production in excess of domestic consumption.

70. Economic conditions in 1988-89 were deemed to be favourable for continued stability for the dairy sector in Canada. A strong economy together with stable dairy prices for dairy products were likely to encourage growth in the consumption of some dairy products. Production of industrial milk and cream during the 1988-89 dairy year was forecast at 48.3 million hectolitres.

71. A continued growth in total cheese production consumption was forecast, while butter and skimmed milk powder manufacture was likely to fall. Total cheese production during 1988-89 was forecast to be 4.9 per cent higher than in 1987-88. Last year's growth in speciality cheese production of 8 per cent was partly balanced by the decline of 2.5 per cent in Cheddar cheese production. However, production of Cheddar in 1988-89 was forecast to be 4 per cent higher to fill export contracts, assuming that consumption stabilizes on a per capita basis. Speciality cheese production would continue to grow but at about 6 per cent which would be lower than the rate experienced during the past five years. Butter manufacture was forecast at 97 million kgs., down 5 per cent from the 1987-88 levels, as domestic butter demand was expected to decline slightly and no exports were forecast. Skimmed milk powder production was forecast to be 102 million kgs. during the next year.

72. In the 1989-90 dairy year, no major change in the industrial milk sector was expected. The forecast was for stable production, with exports declining, as more supplies would be required for additional cheese

manufacture in keeping with the slight increase in demand. An increase of about 1.5 per cent was expected in fluid sales, resulting in an increase in total farm sales of 0.6 per cent on a butterfat basis. Consumption patterns evident over the last few years were likely to continue, resulting in a switch to lower fat milks, more cheese and less butter.

Adoption of reports to the Council

73. The three Committees agreed that an oral report giving an account of discussions at the present session would be submitted to the Council. This report was later incorporated in the report of the Council.

Date of next meeting

74. The next sessions of the Committees will be held on 19-20 June 1989, subject to confirmation by the secretariat. The Committees will meet in joint session, but separate meetings could be held in the order of Cheeses, Milk Powders and Milk Fat, if it was deemed necessary.