

GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

Spec(89)37
19 July 1989

International Dairy Arrangement

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

Report of the Thirty-Eighth Session

(19 June 1989)

Introduction

1. The three Protocol Committees held a joint session on 19 June 1989 to discuss matters relating to the operation of the three Protocols.

Adoption of the agenda

2. The Committees adopted the following agenda:

A. Adoption of report on the thirty-seventh session

B. Information required by the Committees:

(i) Replies to questionnaires (respectively

Questionnaire 3: Certain cheeses

Questionnaire 1: Certain milk powders and

Questionnaire 2: Milk fat)

(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. Other business
 - The market for casein
 - Submission from the International Federation of Agricultural Producers
- G. Date of next meeting
- H. Adoption of report to the Council

Adoption of report on the thirty-seventh session

3. The report of the thirty-seventh session was adopted with certain amendments and distributed in document DPC/PTL/4.

Information required by the Committees

(a) Replies to Questionnaires 1 to 3

4. The Committees reviewed the replies to Questionnaires 1 to 3 and requested participants who had not yet submitted such information in respect of the first quarter of 1989 to do so without further delay. They were also invited to provide information in respect of the second quarter of 1989 by 15 September 1989, at the latest.

(b) Summary tables

5. The Committees took note of the summary tables based on information provided by participants in Tables A and B of the questionnaire in respect of cheeses, skimmed milk powder and whole milk powder and milk fat in the first quarter of 1989 and issued respectively in documents DPC/PTL/W/5, DPC/PTL/W/6 and DPC/PTL/W/7.

(c) Other information

6. The Committees took note of the information which the secretariat had compiled on production, trade, stocks and consumption of dairy products in the United States. Data related to the first quarter of 1989 and also gave tentative forecasts for the whole of 1989.

7. The Committees took note of the United States' planned sales of 75,000 metric tons of Commodity Credit Corporation owned butter to the USSR at supposedly normal international market prices.

8. The Committees also took note of the additional information provided by the secretariat and of statements made regarding the trends in the United States' milk production, its commercial use and the price prospects during 1989. It was considered appropriate to follow closely further developments in the United States' dairy production and trade.

Transactions other than normal commercial transactions

9. Upon the invitation of the Chairperson to provide more information concerning the United States' proposed donation of butter, the representative of Poland confirmed that details of the United States' food aid were still being discussed between the two governments. Such a donation was expected to contribute to the implementation of different programmes by non-governmental agencies, including charity activities of the Catholic Church for handicapped and orphaned children. The proceeds from the sales of such butter on the domestic market would be used for

clearly defined charity purposes, and were not likely to influence the normal commercial imports of his country.

Sales under derogations

10. The Committees noted with satisfaction that no sales of cheeses, milk powders and milk fat had taken place under derogations during the first quarter of 1989, which showed that the market situation had generally improved for the products covered by the three Protocols.

11. Contrary to the EC's understanding that the sales of low quality cheese were no longer necessary, the delegate of New Zealand said that invariably a small proportion of cheese produced failed to meet the strict quality standards and might occasionally be exported at below the GATT minimum price. Lately, however, the GATT minimum price had been so out of touch with the market realities that even the low-quality cheese could be sold on the market at above this price and therefore the notification was not considered necessary in spite of some sales having taken place.

12. The representative of Australia also said that a notification of derogation sales had not been made because no such sales had taken place since the last notification.

Review of market situation for products covered by the Protocols

13. In the European Economic Community, the dairy herd at the end of 1989, was expected to decline to 23.02 million head or by 1.5 per cent as compared to its number at the end of 1988. Average yield would be 4,650 kgs. per dairy cow. Deliveries of milk to dairies were forecast at 98 million tons in 1989, down 1 per cent on 1988, when these amounted to 99 million tons. Deliveries in the four-month period January-April 1989, were down by 1 per cent as compared to the same four-month period of 1988. In contrast, world milk production was expected to increase both in 1989 and 1990, but the increase was likely to be outmatched by a possible increase in the demand for certain dairy products. The reduction in EEC

deliveries would, however, be more than outweighed by increased deliveries in certain other countries. According to the EC estimates, United States' milk production was expected to increase by 2.6 million tons, while New Zealand production was likely to increase by 0.2 million tons and Australian production by 0.3 million tons in 1990.

14. Exports by the EC generally increased in 1988. However, in the first months of 1989 a slight decrease in overall exports was registered. The EC market was stable and export prices, in ECU terms, were still on the rise. However, due to recent increase in the value of the US dollar, the EC prices in terms of dollars had decreased even after the reductions made in the level of the restitutions.

15. As regards skimmed milk powder, production decreased in 1988 by 20 per cent to 1.3 million tons, but recovered somewhat in the first quarter of 1989, as a result of measures taken to curtail consumption of skimmed milk powder for animal feed purposes, particularly. The use dropped by 130,000 tons or by some 12 per cent. Current world prices ranged between US\$1,950 and US\$2,100 per ton f.o.b.

16. Production of whole milk powder increased slightly in the first months of 1989, and was expected to show an overall increase of 1 per cent in the whole of 1989. World price was in the range of US\$1,950-US\$2,000 per ton f.o.b.

17. As regards butter, production decreased by 12 per cent in 1988 to 1.7 million tons and in 1989 was forecast to remain the same as in 1988. The demand for butter was firm and might somewhat increase in 1989. However, the Community's domestic consumption was declining and internal prices were rising, as they were now 4 to 10 per cent higher than the intervention prices. Current world price for butter was around US\$2,000 per ton f.o.b.

18. Production of cheese was forecast to remain the same as in 1988. Exports somewhat declined in 1988, but consumption continued to increase. Current world prices were in the range of ECU 2,400-ECU 2,500 per ton f.o.b.

19. As regards the stocks of dairy products, public stocks of butter on 15 June 1989 were 40,300 tons, while private stocks stood at 140,000 tons, giving a total of 180,300 tons as compared to 200,000 tons at the beginning of 1989. Public stocks of skimmed milk powder, which were 7,041 tons at the beginning of the year disappeared completely by the end of June 1989. Private stocks of cheese amounted to 120,000 tons on 15 June 1989.

20. At the end of May 1989, important decisions were taken by the Commission to reduce the level of restitutions in parallel with the increase in the value of the US dollar. Certain domestic aids given for consumption of skimmed milk powder as animal feed and for the consumption of butter had been further reduced.

21. In Australia, milk production in 1988/89 continued to recover from the drought conditions which led to a 1 per cent decline in 1987/88. In the January-March 1989 period, production was 1,533 million litres as compared to 1,472 million litres in the equivalent 1988 period. 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. With regard to the world situation, it was the Australian view that the falls in production experienced in 1987 had largely been reversed and production was increasing in most major producing countries in the latter part of the year with the exceptions of some countries such as New Zealand, Finland and Ireland. However, the temporary halt in the increase in production together with the effective stocks disposal programmes in major producing countries and some recovery in demand had combined to produce a much more buoyant outlook for milk products.

22. Australian butter/butter oil (commercial butter equivalent) production in the first quarter of 1989 at 21.2 thousand tons was 6.5 per cent above the level of 19.9 thousand tons in the corresponding period of 1988. Total butter/butter oil production for 1987/88 was 94.2 thousand tons as against 103.8 thousand tons for 1986/87. In 1988/89, butter production was forecast at 94.2 thousand tons. Domestic consumption of butter/anhydrous milk fat in 1987/88 was 51.9 thousand tons, representing a decline of 8.9 per cent on the 1986/87 consumption level of 57 thousand tons and due

largely to a relative increase in the consumption of dairy blends. In 1988/89, domestic consumption was forecast to increase by 6.9 per cent to 55.5 thousand tons. Exports of butter/anhydrous milk fat in 1987/88 were 52.4 thousand tons and were expected to fall substantially by 14.1 per cent in 1988/89 to 45 thousand tons. As regards the world situation, it was reckoned that the world market for butter/anhydrous milk fat had substantially improved in recent months and the upward trend continued largely due to successful stock disposal programmes in the EC and cuts in world production in response to previously low world prices. Currently the world price for butter was about US\$1,800 per ton f.o.b. and for anhydrous milk fat about US\$2,200 per ton f.o.b. and both appeared to be rising.

23. As regards skimmed milk powder/buttermilk powder, Australian production in the first quarter of 1989 at 27.6 thousand tons was 26.7 per cent up on the corresponding period of 1988, the bulk of the increase being in skimmed milk powder which increased from 20.3 thousand tons to 26.1 thousand tons. Estimated production of skimmed milk powder/buttermilk powder for 1988/89 was 120.7 thousand tons as compared to an actual production of 127.8 thousand tons in 1987/88. The skimmed milk production was forecast to fall from 120 thousand tons to 113 thousand tons, and buttermilk powder production was forecast to be marginally lower from 7.8 thousand tons to 7.7 thousand tons. Domestic sales were expected to fall for skimmed milk powder by 4.5 per cent and increase by 50 per cent for buttermilk powder. Exports in 1987/88 were about 80.3 thousand tons as against 90.2 thousand tons in 1986/87. In 1988/89, they were expected to be reduced to 75 thousand tons, of which skimmed milk powder would be 69.5 thousand tons and buttermilk powder 5.5 thousand tons. Closing stocks for 1988/89 were forecast at 9.5 thousand tons; skimmed milk powder 8.7 thousand tons and buttermilk powder 0.8 thousand tons. Regarding the world situation, it appeared that while skimmed milk powder stocks were low the world over, the rapid rise in prices experienced during 1988 had levelled off. Prices peaked around December at US\$1,900-US\$2,100 per ton f.o.b. but now had settled at around US\$1,800 as more stocks had become available.

24. The Australian whole milk powder production in the first quarter of 1989 at 19.5 thousand tons was more or less the same as in the corresponding period of 1987. In 1987/88, production totalled 63.7 thousand tons, showing a slight decrease on production in 1986/87, but was forecast to recover to 70 thousand tons in 1988/89. Domestic sales were expected to increase in 1988/89 by 9.2 per cent from actual consumption in 1987/88 of 15.1 thousand tons to 16.5 thousand tons. Exports in 1988/89 were forecast at 52.5 thousand tons, an increase of 5.8 per cent over the 1987/88 level of 49.6 thousand tons. As regards the world situation, the world production had been increasing in response to stronger demand and to previously low butter prices. However, the rise in world prices had levelled off and had settled at around the same level as for skimmed milk powder of about US\$1,800 per ton f.o.b.

25. The Australian cheese production in the first quarter of 1989 was 47.7 thousand tons, of which 31.5 thousand tons was Cheddar and 16.2 thousand tons was non-Cheddar. This was 5.5 per cent more than in the same period of 1988, and the increase was in non-Cheddar type cheeses in response to changing demand, with Cheddar production at the same level of 31.5 thousand tons for the March quarter of 1988 and non-Cheddar cheese production rising by 17.4 per cent from 16.2 thousand tons. Total production of cheese in 1987/88 fell slightly to 176.3 thousand tons (Cheddar 122.6 thousand tons and non-Cheddar 53.7 thousand tons) as against 1986/87 production of 177.5 thousand tons (Cheddar 123.3 thousand tons and non-Cheddar 54.2 thousand tons). Production was forecast to increase by 3.5 per cent in 1988/89 to 182.5 thousand tons. Exports in 1987/88 were 62.7 thousand tons and were forecast to increase to 65 thousand tons in 1988/89. Domestic sales of Australian cheese in 1987/88 were 116.5 thousand tons and were expected to increase slightly to 118 thousand tons in 1988/89. On the other hand, imports subject to the provisions of the cheese tariff quota had continued to fall short of the level available. As regards the world situation, it appeared that the current buoyancy for most dairy products was mainly led by a recovery in the cheese market. Although world cheese production had increased, until recently supply had remained tight. Consequently, some stockpiling had taken place and the

world price had begun to fall. Current quotes on the world market were about US\$2,000 per ton f.o.b., down from a peak of about US\$2,200 in the last quarter of 1988.

26. In a note circulated by Australia (DPC/W/90), serious concern was expressed regarding the dairy policies of the EC and the United States in the medium term, which could possibly jeopardize the current international market situation. Because of the impact of dairy policies and the market management measures of some major producers on the international market, Australia believed that it would be useful for such developments to be taken into account by the GATT secretariat in preparing the Status Report for the forthcoming meeting in September. In general, the outlook for the international dairy market was encouraging. However, this was closely linked with the continuing containment of subsidized production and preventing the distortion of international market signals to producers by appropriate dairy market management policies. A full debate was therefore desirable at the September meeting of the International Dairy Products Council when evaluating the market situation for dairy products on the basis of the Status Report prepared by the secretariat.

27. In Bulgaria, the output of all types of cheeses in the first quarter of 1989 amounted to 33,300 tons, showing a drop of 400 tons from the level in the same period of the previous year. Exports totalled 2,700 tons as compared to 4,700 tons in the first quarter of 1988, the main export markets being the USSR, Iran and the Federal Republic of Germany. There were no cheese imports in the first quarter of 1989.

28. Imports of whole milk powder in the first quarter of 1989 at 1,100 tons, were mainly from Austria and the Netherlands, and buttermilk powder at 1,000 tons from the Federal Republic of Germany.

29. Butter production fell in the first quarter of this year to 5,100 tons as compared to 5,800 tons in the corresponding period of last year. Consequently, imports of butter in the first three months of 1989 added up to 3,000 tons, as against 1,100 tons in the same period last year, mainly from France, the Federal Republic of Germany and Switzerland. There were no exports of butter during the first three months of 1989.

30. In Hungary, the continuous drop in dairy cow numbers, from well over 2 million to 1.67 million in 1987, came to an end in 1988 when there was a slight increase. Milk production at the end of the year increased to 2.81 million tons due largely to an increase in productivity.

31. The production of skimmed milk powder in the first quarter of 1989 at 6,000 tons was slightly higher than the level in the same quarter of last year. Consumption was somewhat lower than usual and therefore stocks were higher than before at 3,300 tons. There were no imports; exports totalled 1,200 tons, mostly to Austria and Japan. In common with other exporters, some improvement in export prices was registered.

32. Output of whole milk powder increased 2,200 tons in the first quarter of 1989, while consumption remained around 1,000 tons. Stocks increased to 3,300 tons by end of the first quarter. Exports amounted to 1,000 tons.

33. Production of butter in the first quarter totalled 8,800 tons, but consumption dropped by 10 per cent to 6,600 tons. Consequently, stocks increased to 5,200 tons. There were no imports of butter; on the other hand, about 700 tons were exported to Austria.

34. Cheese output fell by 3 per cent over the level in the same period last year. Consumption dropped by more than 20 per cent to a level of 8,600 tons, due largely to an increase in prices on the domestic market. Stocks stood at 8,300 tons. Exports were around 1,700 tons, mainly to the Middle East countries, Austria and the United States.

35. Noting a significant improvement in the export prices for major dairy products, the representative of New Zealand indicated the following general price ranges: butter US\$1,850-US\$2,000 per ton f.o.b.; butter oil US\$2,000-US\$2,300 per ton f.o.b.; skimmed milk powder US\$1,850-US\$2,000 per ton f.o.b.; whole milk powder US\$1,900-US\$2,050 per ton f.o.b.; and cheese US\$1,900-US\$2,100 per ton f.o.b.

36. Production of manufacturing milk in New Zealand in the 1988/89 season ending on 31 May, was down by an estimated 5.8 per cent to a level of 313 million kgs. of milk fat from a level of 332.5 million kgs. in 1987/88. The drop was a reflection of adverse seasonal conditions, with little change in cow numbers from the 1987/88 season. The season started off well, but was later affected by unusually wet conditions which retarded pasture growth. Consequently, milk production in 1988/89 was adversely affected. Given a return to more normal weather conditions in 1989/90, some recovery in production was anticipated.

37. Despite the lower level of milk production, output of whole milk powder increased in the 1988/89 season and there was some marginal increase in cheese production which reflected the industry's policy of reducing the proportion of milk used in butter manufacture in the face of reduced access to traditional markets and the lack of available secure alternative markets for butter. Production of butter and related products accordingly was 10 per cent lower than in 1987/88. Production of non-fat products, skimmed milk powder and casein, was also lower in line with the reduction in butter output. While the casein output dropped by 17 per cent, skimmed milk powder production dropped by 7 per cent. Overall, the supply position remained very tight for all major product categories, reflecting the generally buoyant international market conditions in 1988 and the lower than earlier anticipated levels of production, especially of casein.

38. From New Zealand's perspective, the major adjustment of international dairy markets to the much improved supply balance was continuing and this was reflected in the re-building of export prices back to more realistic economic levels from the depressed levels to which they were pushed by excessive supply pressures in the 1984/87 period. The initial recovery was concentrated in markets for non-fat products, especially skimmed milk powder and casein. Major price improvements for these products occurred from the middle of 1987 through 1988, but by early 1988 had begun to level off. The market recovery for fat bearing products was delayed but with the disposal of the last of the EC's surplus stocks by mid-1988, export prices began to recover quickly, gaining momentum into the first half of 1989.

Whereas prices for skimmed milk powder and related products were stabilizing, butter prices were expected to improve substantially further. Prices for whole milk powder and cheese were also expected to improve modestly, depending on the relative adjustment of fat and protein product values.

39. It was against this background that New Zealand would like the Protocol Committees to review the minimum price levels at their September meetings. Since the immediate crisis had passed, the question of readjustment of prices could be deferred to the next meeting, when, hopefully, the EEC might have deliberated upon the political issue of milk quotas and some other matters in the Uruguay Round relating to medium- and long-term stability would have been settled. At this stage, New Zealand only wished to signal its intention to make proposals concerning the modification of minimum export prices in the context of the annual review of prices in September. The major focus would be in the milk fats area, and the question of minimum prices would be examined not only in terms of a closer relationship between market prices and the minimum prices but also a whole restructuring of the price level in light of medium- and long-term outlook. Informal contacts among the member countries at an early stage would facilitate a consensus at the September meeting to adopt a quick decision.

40. In Poland, no dramatic change in imports and exports of butter and skimmed milk powder was expected in 1989. Butter output was forecast to be around 270,000 tons in 1989, as compared to 266,000 tons in 1988. Imports of butter in 1989 would be more or less the same as in 1988. Exports of skimmed milk powder in 1989 were expected to remain unchanged at the previous year's level.

41. In South Africa, dairy cow numbers increased by 1.3 per cent in 1988 to 860,000 head. Milk production in the first quarter of 1989 was 457,730 tons, and was expected to increase by 4.7 per cent to reach a level of 479,300 tons during the second quarter. Total milk production in 1989 was expected to increase by 4.5 per cent to 1.89 million tons. Milk

consumption, on the other hand, amounted to 437,315 tons during the first quarter of 1989 and was expected to increase by 4.2 per cent to 455,575 tons during the second quarter. The total for 1989 would be around 1.9 million tons. Average daily milk production currently was 16 litres per cow and an increase in productivity was expected following the adoption of the "Milk is Milk" specialization scheme.

42. Cheese production in the second quarter of 1989 was expected to be 27 per cent higher than the second quarter of 1988 at 9,800 tons. Consumption was estimated at 11,200 tons or 19 per cent more than the second quarter of 1988. No exports were expected, but imports could reach 400 tons. The expected stocks at the end of June 1989 would be around 8,900 tons.

43. The skimmed milk powder production during the first quarter was lower than expected by the Dairy Board. The estimated production in the second quarter of this year was likely to be much lower than the 5,500 tons of the first quarter. Consumption was expected to be around 4,600 tons for the second quarter or 14 per cent lower than in the first quarter. No imports or exports were expected and stocks were likely to reach a level of 4,000 tons by the end of June 1989.

44. The production of whole milk powder was expected to remain unchanged at the level of 2,150 tons in the previous quarter. Consumption in the first quarter of 1989 was a little lower than expected, but in the second quarter it was estimated to be around 2,400 tons. No imports or exports were expected. Stocks at the end of June 1989 would be 1,600 tons.

45. Butter production of less than 2,000 tons was expected for the second quarter of 1989, which would be 50 per cent less than that of the first quarter or 30 per cent less than the corresponding quarter of 1988. Consumption of butter was expected to be the same as last quarter or the corresponding quarter of 1988 - 4,500 to 4,600 tons. It was estimated that 1,000 tons of butter would be imported during the second quarter. Stocks at the end of June 1989 were estimated to be around 350 tons.

46. In Finland, milk deliveries during the January-April 1989 period were 4.7 per cent lower as compared to the same period last year, as a result of the milk bonus system which encouraged exit from the industry. About 120 million litres of milk were withdrawn from production under the contracts. About 40 per cent of the farmers, who did not get the contract due to lack of funds, stopped producing milk. This meant an additional fall of 90 million litres. Another reason for the drop was that average yields continued to be low. Estimates for milk deliveries had therefore been revised from 3,000 million litres to 2,470-2,500 million litres, depending on normal weather conditions. The milk quota system or the dual price for milk was revised this year to make it more flexible. Unused quotas could now be allocated to farmers that needed additional quotas. However, overall production would remain lower than before.

47. Similarly, the estimates of production of dairy products had been revised downwards. Butter production in 1989 would be from 1.7 to 5 per cent less at a level of 58-60,000 tons; cheese output would remain unchanged at 87,000 tons; output of whole milk powder would fall by 50 per cent to 6,000 tons; and output of skimmed milk powder would drop by 12 per cent to a level of 25,000 tons. Consumption of these products would also fall, except that of cheese which would increase by 3 per cent.

48. Average export price for butter during the first quarter of 1989 was US\$1,578 per ton f.o.b.; while that of skimmed milk powder was US\$1,588 per ton f.o.b. The average export price for Emmental-type cheese was US\$3,264 per ton f.o.b.

49. In Norway, milk deliveries in the first three months of 1989 were the same as in the corresponding period of last year. Estimates for the whole of 1989 indicate that deliveries would remain unchanged at last year's level of 1,800 million litres.

50. As regards butter, production during the first quarter was 6 per cent down compared to the same period of 1988, but total production would aggregate the same as in last year. Consumption of milk fat was continuing to fall on health grounds. By end-June, 7,000 tons of butter had been exported at an average price of US\$1,500 per ton f.o.b.

51. Both production and consumption of cheese were expected to remain unchanged at last year's level, but exports were expected to be reduced to 21,000-22,000 tons this year.

52. The situation was normal with regard to skimmed milk powder, which was returned to producers as animal feed.

53. In Sweden, milk deliveries during 1988 amounted to 3.4 million tons, but deliveries in 1989 were expected to be 2 per cent more than last year. The size of the cow herd in June 1988 was 560,000 head, which would slightly increase in June 1989.

54. Stocks of skimmed milk powder at the beginning of the year were very low due to the stocking policies of private companies. Since then stocks had increased from a low level of 3,400 tons in January to about 9,000 tons at the end of March this year. Production, consumption and exports decreased a little during the first quarter of 1989 compared to their levels of last year. Some improvement was, however, expected over the year. Average export price in early June was US\$1,600 per ton f.o.b.

55. Butter production as well as exports were higher in the first quarter of 1989, but consumption went down compared to the level in the corresponding period of the previous year. These trends were expected to hold for the year as a whole. Average export price for butter in June was estimated to be around US\$1,650 per ton f.o.b.

56. Cheese output during the first quarter totalled 27,300 tons, showing a slight drop of 3 per cent compared to the level in the same period of 1988. While cheese consumption fell significantly during the first quarter, no change was expected for the whole of 1989. Imports of cheese might increase during 1989 as a result of a possible fall in domestic production.

57. In Switzerland, milk production during the period of January to May 1989, amounted to 1.31 million tons, which was slightly higher than the production of 1.29 million tons in the same period of last year.

58. Regarding different products, cheese production during the first quarter of 1989 amounted to 28,500 tons, which was slightly lower than the level in the same period last year. Imports were stable at 6,000 tons, but exports increased by 8.9 per cent to reach a level of 14,600 tons in the first quarter of 1989. Consumption showed a slight decline, although the figures at this stage were highly provisional. Stocks were rather high at 24,000 tons, consisting mostly of Emmental cheese. The situation for other types of cheese was more normal.

59. The production and consumption of skimmed milk powder were slightly reduced. Stocks were low and there were no exports or imports.

60. As regards whole milk powder, the situation was also stable. Stocks at 1,800 tons were normal.

61. Butter production during the first quarter increased by 9.6 per cent to 9,594 tons as compared to 8,734 tons in the first quarter of 1988. The increase was likely to continue for the next few months. Imports were low and this trend was expected to continue until October when more imports would be needed. Consumption of butter in the first quarter was down by more than 10 per cent, although the figures of 1988 were not entirely comparable since more butter was purchased by consumers in view of the imminent increase in butter prices. Stocks at 5,642 tons during the first quarter were more or less normal.

62. In Uruguay, production of skimmed milk powder, butter and cheese decreased in the first quarter of 1989 respectively by 34.5 per cent, 29.5 per cent and 5.5 per cent as compared to the corresponding period of 1988. Stocks, at the beginning of the first quarter and at the end, decreased from 2,176 tons to 739 tons for milk powder, 2,593 tons to 2,534 tons for cheese and 2,075 tons to 1,220 tons for butter. Consumption of butter remained stable, but consumption of skimmed milk powder suffered a decline of 37.5 per cent. Consumption of cheese remained approximately at the same level as in the corresponding period of 1988. The value of exports of main dairy products during the first quarter totalled

US\$13.16 million and was 118.7 per cent higher than that realized in the same period of last year. Although the export prices had somewhat increased, quantities exported had increased by almost 70 per cent; thus reflecting into higher export values. After a relative stagnation in the value of exports of all dairy products during 1987, when the total was US\$37.9 million, the value increased to US\$45.6 in 1988. During the first quarter of 1989, the volume of exports had sharply increased reaching a level of 6,961 tons as compared to 6,020 tons in the same quarter of 1988. If this upward trend continued during the rest of the year, exports would aggregate higher than in 1988 provided the milk production was not adversely affected by the drought conditions.

63. Generally speaking, a significant decline of 42 per cent was experienced in the value of exports of speciality cheeses, while some increases were obtained in the exports of other products. Prices of caseinates and derivated products were higher by almost 80 per cent, casein 71 per cent and skimmed milk powder 48 per cent. In the case of cheeses, the evolution of prices had been erratic. While prices of speciality cheeses and hard cheeses decreased, prices of soft cheeses and semi-hard cheeses increased respectively by 1.4 per cent and 28 per cent. As to the composition of exports, there were no sales of milk and fresh cream as compared to their share of 13.3 per cent in the total dairy exports of the first quarter of 1988. The most significant increase was registered in the exports of butter which increased to 2,274 tons in the first quarter of 1989, representing 33 per cent of the total dairy exports and being the second largest item of export after skimmed milk powder. In 1988, skimmed milk powder represented 45 per cent of the total value and 57 per cent of the total volume of dairy exports. In the first quarter of 1989, skimmed milk powder exports represented 38 per cent of the value and 41 per cent of the volume of dairy products exported.

64. In Japan, milk production increased by 0.9 per cent in fiscal year 1987, due to an increase in demand for drinking milk. This trend continued in 1988 when production was up by 3.9 per cent.

65. On a product-by-product basis, the output of skimmed milk powder successively decreased by 8 per cent and 9.5 per cent respectively in 1986 and 1987, due to an increase in the demand for drinking milk. In Japan, almost 60 per cent of milk production is oriented to drinking purposes. Production of skimmed milk powder, however, increased by 5.3 per cent in 1988 compared to its level of last year. Imports of skimmed milk powder in 1987 totalled 92,000 tons; in 1988 these totalled 130,000 tons, i.e. 41 per cent more than in the previous year. Average import prices in 1987 increased by 9.6 per cent in terms of US dollars to US\$1,043 per ton c.i.f. and there was a further increase of 59 per cent in 1988 due to the tight international market situation.

66. Butter production also dropped for the two successive years. In fiscal year 1987, the output at 69,000 tons was 14.3 per cent less than in 1986 when it had already shown a decline of 10.8 per cent over the previous year. In 1988, production showed an increase of 1.8 per cent. Imports of butter in 1987 at 19,000 tons were 14.9 per cent higher than in the previous year; in 1988 they added up to 23,000 tons, 12.2 per cent more than in 1987.

67. Cheese production during 1988 was 26,000 tons, 4 per cent more than in 1987. Imports of natural cheese increased by 21 per cent in 1988 to reach a level of 114,000 tons. Import price increased by 18.1 per cent compared to its level in 1987.

68. The observer from Canada indicated that no significant change was expected in the dairy sector until at least the end of the current year. In February 1989, it was announced that the target return price for industrial milk, as well as support prices for butter and skimmed milk powder, would remain unchanged until the end of the dairy year on 1 August 1989. Since that time, the agreement reached on short-term measures at the April meeting of the GATT Trade Negotiations Committee, implied that administered prices for industrial milk would be frozen at current levels until the end of 1990. The existing target return price of C\$47.06/hectolitre had remained unchanged since February 1988.

69. The Canadian milk producers had faced higher cash costs during the winter of 1988/89 due to drought-induced increases in feed prices. But these costs were partially offset by a reduction in the levies collected from producers for losses incurred on sales of skimmed milk powder, as a result of stronger skimmed milk powder prices on the world market. The national market sharing quota for 1988/89 remained unchanged from that of 1987/88, at a level of 47.3 million hectolitres. The current over-quota levy on producers was C\$26/hectolitre, which was intended to at least cover the costs of selling butter and skimmed milk powder on the world market.

70. In Canada, cheese production in 1988 increased by a little more than 4 per cent from the level in 1987, reaching 253,000 metric tons. Both imports and exports dropped by about 5 per cent and domestic consumption rose by less than 3 per cent, so that year-end stocks increased by about 5,000 metric tons.

71. Production of skimmed milk powder was up by less than 4 per cent in 1988. Exports increased from the low level experienced in 1987 to reach a level of 59,000 metric tons, which was 15-20 per cent below the levels in 1986 and earlier years. The increase in exports helped in offsetting a 9,000 metric ton reduction in domestic consumption, so that ending stocks remained almost unchanged at about 12,000 metric tons.

72. Butter production rose by about 8 per cent in 1988. Imports and exports of butter remained negligible at around 100 metric tons. Since domestic consumption fell slightly, year-end stocks rose from the unusually low level of 1987 to a more normal figure of about 16,000 metric tons.

73. The observer from the Economic Commission for Europe, told the Committees that on 1 April 1989, the dairy herd on State and collective farms in the USSR, totalled 28.4 million head, showing a decline of about 1 per cent over the size in the same period last year. Global milk output increased by 1.7 per cent during the first quarter of 1989, while deliveries increased only by 0.2 per cent. The relatively lower growth in production was primarily due to smaller feed supplies this year.

74. Butter production in the first 3 months of 1989 was 4 per cent below last year's level, while margarine output declined by as much as 7 per cent. According to the preliminary figures, the USSR imported as much as 450,000 tons of butter during 1988. In 1989, the USSR was expected to spend 5 billion roubles for its food imports, including grains. With expected imports of about 40 million tons of grains at current world market prices, a sizable part of this amount was likely to be spent only for this purpose. Taking into account the necessary imports of sugar, citrus fruit, coffee, oilseeds, meat and meat products, the likely imports of butter were not expected to be more than 200,000 tons at the prevailing international market prices.

75. Cheese production increased by about 0.7 per cent in the first quarter of 1989 and the output of milk powders by 3 per cent.

Other business

- The market for casein

76. The representative of the European Community wished to draw attention of the participants in the Arrangement to the latest trends in the production and trade of casein and its effects on other dairy products. Whereas up to 1988 the production of casein in the EC had increased, the outlook for 1989-90 was that there would be some decline in line with a decline in demand, especially in the United States. This decline had occurred due to the development of certain substitutes of casein based on soya. In light of this, the EC was interested in the views of other participants regarding the evolution and prospects of development of soya substitutes and the outlook for casein production in the major producing countries. Since there was a technical relationship between fat and non-fat products, the decline in the production of casein was bound to reflect itself in a fall in production of skimmed milk powder and certain low fat cheeses.

77. The representative of New Zealand mentioned that while casein and caseinates were of singular importance to his country, he had no brief on them and therefore could not adequately respond to the EC's questions. He could, nevertheless, indicate that his country exported \$30 million worth of casein to the United States in the first quarter of 1989. Production of casein and caseinates in 1988/89 at 54,500 tons would be 17 per cent less than in 1987/88 when it was 65,759 tons. The butter production dropped by 10 per cent, but the resultant decline in skimmed milk powder production was 7 per cent and output of casein fell by 17 per cent. This was in spite of higher prices for casein on the international market. His country was vitally interested in this question and would therefore seek to have a representative of the New Zealand Dairy Board for the September meeting to discuss the evolution and prospects of this sector.

78. The secretariat informed the Committees that while the problem had not been specifically considered, it could be observed that apart from soya which was an oilseed, pulses and certain protein extracts had also been used in the production of casein substitutes. International trade in pulses and protein extracts had recently amounted to 5.5 million tons and was still increasing. There was a wide range of uses for caseins. These were used as additives in cheeses, yoghurt, pharmaceuticals and for some technical purposes. Currently the prices at about \$6,000 were very high, for which reason these substitutes were likely to be further developed. Production in Australia and New Zealand had recently dropped, while in the EC there was an increase between 7 and 10 per cent which, however, appeared to be temporary. No immediate increase in casein supplies could be expected in spite of currently high prices. Casein as a dairy product was included in the International Dairy Arrangement some fifteen years ago, but it was not incorporated in any of the Protocols. The secretariat was prepared to provide further information if the Committees so desired at their September meeting.

79. Concluding, the Chairperson proposed that the question should be included in the agenda of our Council meeting in September for further consideration. Hopefully the delegations would have obtained all the relevant information and the question could be discussed more meaningfully at that stage.

- Submission from the International Federation of Agricultural Producers

80. The Committees were then informed of a submission from the International Federation of Agricultural Producers containing certain proposals concerning the International Dairy Arrangement, and which had been circulated to participants in document DPC/W/88.

Date of next meeting

81. The next sessions of the Committees will be held on 18-19 September 1989, subject to confirmation by the secretariat. The Committees will meet in joint session, but separate meetings could be held in the order of Milk Fat, Cheeses and Milk Powders, if it was deemed necessary.

Adoption of report to the Council

82. 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/5.