

GENERAL AGREEMENT ON

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TARIFFS AND TRADE

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 Forty-Sixth Session

17-18 June 1991

Introduction

1. The three Protocol Committees held a joint session on 17-18 June 1991, to discuss matters relating to the operation of the three Protocols.

Adoption of the agenda

2. The following agenda was adopted for the joint session:
- A. Adoption of report on the forty-fifth session
 - B. Information required by the Committees:
 - (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
 - C. Transactions other than normal commercial transactions

- D. Sales under derogation
- E. Review of the market situation for products covered by the Protocols
- F. Request for a derogation by South Africa
- G. Relationship between the minimum export prices fixed for pilot products
- H. Adoption of report to the Council
- I. Date of the next meetings

Adoption of report on the forty-fifth session

3. The report of the forty-fifth session was adopted and distributed in document DPC/PTL/18.

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 1991 to do so without further delay. They were also requested to provide all the relevant information concerning the second quarter of 1991 by 13 September 1991, 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 skimmed milk powder and whole milk powder, milk fat and cheeses, and issued respectively in documents DPC/PTL/W/50, DPC/PTL/W/51 and DPC/PTL/W/52. The Committees were informed that these figures would be further updated as soon as more recent information was available.

(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 1991 and also gave forecasts for the second quarter of 1991 and the whole of 1991.

Transactions other than normal commercial transactions

7. The representative of the EC informed the Committees that the European Communities intended to provide 50,000 tons of whole milk powder to the USSR as part of an urgent action to supply that country with agricultural products in conformity with Regulation (EEC) No. 598/91 of 5 March 1991.

Sales under derogation

8. The Committee of the Protocol Regarding Certain Milk Powders took note of the communications notified by New Zealand (DPC/PTL/W/44), Poland (DPC/PTL/W/46 and 48) and South Africa (DPC/PTL/W/45 and 47) regarding intended sales of buttermilk powder and skimmed milk powder for purposes of animal feed at below the minimum export price under Article 3:5 of the Protocol. These communications involved sales of 94.5 tons of buttermilk powder by New Zealand to Mexico, 5,840 tons of skimmed milk powder by Poland to Japan and 2,770 tons of skimmed milk powder by South Africa to Japan. In this connection, it was noted that a contract for the sale of 2,000 tons of skimmed milk powder notified by Poland in document DPC/PTL/W/46 had been cancelled. The Committee took note of the summary table regarding sales made in accordance with Article 3:5 of the Protocol (DPC/PTL/W/40/Rev.1). This document would be further revised in order to take account of the additional information furnished by Poland.

9. The Committee noted that most of the powder would be exported in an unaltered state to Japan having the necessary processes and control measures recorded in the Register (Annex Ic of the Arrangement). It was furthermore noted that such information on Japanese imports of skimmed milk

powder under Article 3:5 was included in the quarterly replies to Questionnaire 1.

10. Referring to the Decision of 12 December 1990 of the Committee of the Protocol Regarding Milk Fat (DPC/PTL/16), the Chairman recalled that four notifications had been received pursuant to the said Decision. Details in respect of quantities, prices and delivery dates had been provided in a summary table (DPC/PTL/W/43). In March, the four exporting participants: New Zealand, the European Communities, Australia and Finland, had not been certain what quantities of butter would ultimately be shipped by the end of September 1991, in view of the difficult economic situation in the USSR. These participants had indicated at that time that more information would be provided at this June meeting of the Committee.

11. The representatives of Australia and Finland advised the Committee that the quantities of butter contracted within the terms of the Decision of 12 December 1990 had already been shipped.

12. The representative of New Zealand informed the Committee that the deliveries under the contract entered into between New Zealand and the USSR had been delayed due to payment difficulties experienced by the USSR. However, some progress had been made regarding these problems and a deal was now close to finalization. Because of the delays, only some 8,000 tons had been exported to date in fulfilment of the contract of 100,000 tons. However, the balance would be shipped from June onwards. Shipments would hopefully be completed by the end of September 1991. Full details would be provided as soon as the shipment plan could be confirmed.

13. The representative of the EC said that the fulfilment of the contract concluded for the supply of 200,000 tons of butter to the USSR by the end of September 1991 continued to pose difficult problems to exporters. Due to payment difficulties experienced by the USSR, a sale of only 28,000 tons had been made to date, most of this quantity already having been shipped. A consignment of 124,000 tons was envisaged which should be taken from intervention stocks held in different member States. Although a tendering

procedure had been opened for this quantity, no offers had yet been made in two consecutive tenders. He explained that as traders had to pay a deposit and did not want to lose it, they were very cautious; this caution being explained by the difficulties encountered in receiving guarantees from the USSR. In this situation, uncertainties persisted as to whether the quantity of 200,000 tons initially contracted would be delivered in its entirety by the end of September 1991.

14. The representative of New Zealand noted that the EC had made reference to the possibility of a total of 28,000 tons being shipped to the USSR. She asked whether this quantity was an assessment or a calculation of the possible total quantity that might be shipped under the terms of the derogation or whether it included some product that might already have been shipped to the USSR. It was the understanding of her delegation that a number of sizable sales of butter out of the EC were known to have been made to the USSR at prices below the minimum export price utilizing the special higher refund first set in January 1991 for exports to the USSR; to newly emerging Republican and local government organizations and not to the central government buying agency "Prodintorg". The sales had reportedly been made separately from the contract of 200,000 tons notified to the Committee in terms of the Decision of 12 December 1990, after the 15 January cut-off date for sales below the minimum export price provided for in that Decision and had not been notified. She asked the EC representative whether he could furnish information on this matter.

15. The representative of the EC reiterated that the quantities which were actually shipped were to be considered within the framework of the contract of 200,000 tons concluded with the USSR. As in the case of the New Zealand sale, there were delays in shipments due to payment difficulties experienced by the USSR. He believed that it would still be possible to supply the whole quantity contracted and he assured the Committee that the total quantity finally delivered would not be higher than the quantity initially contracted.

16. The representative of New Zealand said that if the quantities already shipped by the EC were to be considered within the framework of the contract of 200,000 tons, then the EC should have notified to the Committee details on actual deliveries.

17. In reply, the representative of the EC said that a guarantee covering payment had been received for about 28,000 tons out of the total contract of 200,000 tons. Information was not available as to whether guarantees covering payments for further quantities had been received.

18. The representative of Australia requested further information as to whether there were several contracts for which guarantees were sought totalling up to 200,000 tons and whether there were any additional constraints or limitations that were affecting the ability of the EC to carry out this sale under derogation.

19. The representative of the EC replied that one Community operator had concluded a contract for the supply of 200,000 tons of butter to the USSR. He reiterated that the delays in shipments were due to payment difficulties experienced by the USSR. When the necessary guarantee would be received deliveries would be made in a number of slices and hopefully, shipments would be completed by the end of September 1991.

20. The representative of Australia requested further information as to the capacity of the EC to supply the product as distinct from the capacity for the USSR to purchase the product through the provision of suitable guarantees. It seemed that there were difficulties in both areas. Taking into account that deliveries would be made in a number of slices, he wondered whether the EC would be able to complete the shipments of 200,000 tons by the end of September 1991. He noted also that problems associated with the supply were not envisaged in discussing the deadline of 31 September 1991. He also asked whether the EC could provide information on the price of the 28,000 tons, most of which being already shipped to the USSR.

21. The representative of the EC recalled that the Decision of 12 December 1990 (DPC/PTL/16), did not require any participant to supply information on prices. Shipments would be made in several slices and there could be several prices. However, taking into account the restitution of ECU198 per 100 kgs. fixed in March 1991, export prices would be around US\$1,000 per ton. In its notification distributed as document DPC/PTL/W/31, the EC clearly mentioned that in order to finalize the deal, certain questions still had to be dealt with or were in the process of being solved. The question of guarantees for payment and the question of prices were linked and were not yet solved. He concluded by stating that it was in the interest of all participants that this contract be fulfilled. He hoped that by the end of September 1991 all the deliveries under this contract totalling 200,000 tons would be completed. Further information regarding this contract would be provided at the next meeting of the Committee.

22. The Committee of the Protocol Regarding Certain Cheeses took note of the communication notified by Poland regarding a sale of 200 tons of cheese which was below normal export quality at below the minimum export price under Article 7:2 of the Protocol (DPC/PTL/W/49). The Committee also took note of additional information furnished by Australia regarding its exports of 523 tons of low-quality cheese to different countries in Western Europe. A total of 1,000 tons was expected to be sold under Article 7:2 of this Protocol (DPC/PTL/W/25). The Committee noted that details of these disposals would soon be notified as required by the Protocol. The representative of the EC expressed concern with regard to the use of this derogation by Australia. He recalled that the provisions of Article 7:2 applied to exports of small quantities of low-quality cheese. However, the quantity of 1,000 tons expected to be sold by Australia under derogation was not a small quantity as compared to Australia's total annual production of cheese.

Review of the market situation for products covered by the Protocols

New Zealand

23. The representative of New Zealand, when reviewing major international dairy market developments and export price trends since the end of April 1991, said that the settlement in May of the EC's farm price package (incorporating a 2 per cent reduction in milk production quotas) and, separately, the introduction of a system of intervention buying of skimmed milk powder by tendering had had significant direct effects for international dairy markets. It was widely expected that under the new intervention system, the support price would be progressively reduced (albeit gradually) leading to a general reduction in market prices in the Community, not only for skimmed milk powder but for milk powders generally. A flow through to other products such as cheese and casein was also expected. End-users, traders and other market operators were reflecting this prospect in their forward pricing and other market positioning; they would only buy firm for forward deliveries at discounted prices on the expectation that future prices would be below current levels. The postponement of purchasing decisions and the rundown of stocks to minimum working levels which was being encouraged by the new intervention arrangements, had tended to exaggerate short-term excess supply pressures. These were the same sentiments which had affected butter and milk fat markets generally under the intervention tendering arrangements which had been operated for butter over a longer period. In this sense, they had been counter-productive resulting in greater volumes being offered to intervention than might otherwise be the case.

24. The bearish market sentiment for milk powder and related products had been compounded in the case of export prices by the continued strength of the US dollar in relation to major EC currencies, compared to the second half of 1990 and the first two months of 1991. The dollar had held its position at exchange rates 19-21 per cent higher than in February 1991. In the case of butter and butter oil, the negative influences of domestic price reductions and currency movements had to a degree been offset by

export restitution reductions in March and April. There had however been no matching changes for milk powder and other products. With the cost of supply from the EC (the principal determinant of international market prices) reduced by between US\$255 and US\$275 per metric ton, the whole structure of export prices for milk powder had been brought down with other exporters forced to match the fall in Community prices.

25. In the United States, the rate of increase in milk production was showing signs of slowing though milk price support buying by the Commodity Credit Corporation (CCC) of butter and skimmed milk powder had continued. Cheese sales to the CCC had however been reduced and prices had lifted off the support floor. This was thought to be the result of the decision by the United States Department of Agriculture to suspend for the time being the provision under which government owned cheese could be released back onto the market by the CCC at 110 per cent of the purchase price. Manufacturers were understood to have made use of the provision to sell cheese to the CCC, buying it back later to cover market needs and by this means passing the cost of storage to the CCC. To date, only limited export sales had been approved under the Dairy Export Incentive Programme. Cheese had been added to the programme but details of eligible destinations and quantities had yet to be announced. The sales of milk powder, butter and butter oil which had been authorized to date had been at prices which had closely tracked EC export offer price levels.

26. The New Zealand 1990/91 dairy season ended on 31 May 1991 with production up by between 2 and 3 per cent on the previous season. The New Zealand Dairy Board's basic price for manufacturing milk for the current season had been confirmed in May at NZ\$3.70/kg. milk fat, 36 per cent lower than in 1989/90. An interim advance price, also of NZ\$3.70/kg. milk fat, had been set for the 1991/92 season as the basis for establishing export purchase prices by the Board. These prices were the lowest in real terms which the industry had faced in modern times, i.e. since the end of World War II.

27. There had been no fundamental shifts in market demand. Among developments of significance, it should be mentioned that a shortfall in milk production in Japan had required the government to purchase for import 12,000 tons of skimmed milk powder in April 1991. Some further imports of milk powder, and possible butter, were anticipated later in the year. Cheese imports in the first months of 1991 had recovered from the low levels recorded during the same period last year. The Government of Mexico had postponed the purchase of milk powder until later in the year, in the meantime covering requirements from stocks. Political developments in Algeria had been the source of some disquiet about financing and volume of future imports of dairy products.

28. Regarding the specific butter and butter oil situation, she said that prices for butter from all major exporters had remained at the GATT minimum export price. A further ECU5/100 kgs. reduction in the EC's butter restitution of 30 April had offset the fall in internal Community butter prices and the effect of the stronger United States dollar up until then. Subsequently, prices had been eroded again by currency movements and the further drift down of butter prices allowed in the Community in May. In practice, few sales had been made at the minimum price, and none of any size because there were virtually no buyers. The few sales which had been made in the last month had been at prices below the GATT minimum price covered by EC based traders sourcing product from Central and Eastern Europe. These had included a reported sale of 6,000 tons to Morocco in three shipments at prices in the range of US\$1,225 to US\$1,265 per ton c.& f. The most significant business in butter oil over the last month had been two separate sales under the United States Dairy Export Incentive Program to Algeria; one for 1,000 metric tons and the second for 3,000 metric tons. The subsidies provided had allowed for pricing well below the GATT minimum export price of US\$1,625 per metric ton f.o.b. Sales at such prices (repeated with minor sales to other markets) had been justified by the United States Department of Agriculture on the basis that butter oil was being freely traded out of the EC at prices below the IDA minimum. This was verified weekly by the prices encountered in the New Zealand Dairy Board in its own trading. It was a continuing, very serious problem which

the reduction in the EC's butter oil refund on 30 April failed to address adequately. The prefixation of refunds meant that EC butter oil currently was widely on offer at prices below US\$1,500 per metric ton f.o.b. for delivery through much of the rest of 1991. The constant breaching of the butter oil minimum price by EC traders effectively had cut New Zealand and Australia out of the market. The only business which the New Zealand Dairy Board had been able to transact had been with customers with which it had long-term supply arrangements.

29. Export prices for skimmed milk powder had been firmly established above US\$1,500 per metric ton f.o.b. in the early months of this year, with no evidence of buyer resistance to these prices. They had, however, progressively been forced back down, and below, US\$1,250 per metric ton, with recent examples of small export sales being made close to the GATT minimum price of US\$1,200 per metric ton f.o.b. This price fall had had nothing to do with the requirements of international skimmed milk powder markets which basically were unchanged. It had been driven almost entirely by developments in the separate EC market. With no change in export refunds, these had been allowed to flow over into the much smaller international market. Other exporters, including the New Zealand Dairy Board, had had no option but to respond to the lowering of EC origin export prices. Thus, prices to major customers for delivery in the second half of 1991 had to be reduced in May to US\$1,330 per metric ton. Now there was pressure for spot sales to be made at even lower prices. Similar developments had been observed for whole milk powder. Prices were currently in the range of US\$1,250-US\$1,300 per metric ton f.o.b. compared to US\$1,500-US\$1,600 per ton f.o.b. in January 1991.

30. Prices for cheese had not to date been affected as much as for other products because of relatively steadier production and market demand. In the case of Cheddar, an improved stock balance in the United Kingdom had been reflected in a strengthening of market prices. Export prices, where denominated in US dollars had, however, been eroded by the extent of the strengthening of the US dollar. Prices of Cheddar cheese were currently in

the range of US\$1,500-US\$1,700 per ton f.o.b. and around US\$1,800 per ton f.o.b. for sales to Japan.

31. The representative of the EC disagreed with the assertion made by New Zealand that all the problems of the dairy sector were due to the production and trade policies of the Community. Moreover, when the representative of New Zealand referred to developments of significance in market demand, she mentioned certain markets importing relatively minor quantities of dairy products while she did not mention the major importer, the USSR, whose imports of butter amounted to half of world imports. The payment difficulties experienced by the USSR was the main cause of the problems of the dairy sector, and it was not likely that the USSR would continue to import some 400 to 500 thousand tons of butter per year as in the past. In addition, most of the developing countries importing dairy products were also experiencing payment difficulties. Finally, the continued strengthening of the United States dollar was causing uncertainties regarding the stability of the world market for dairy products. In summary, the payment difficulties experienced by the USSR and by developing countries importing dairy products, and the appreciation of the United States dollar were the causes of the bad market situation for dairy products, notably for butter. He reiterated that his delegation could not accept the accusations made by New Zealand. The statement by New Zealand started by a comment on recent EC decisions; it would be much more useful if New Zealand confined itself to describing the situation in New Zealand.

32. In reply, the representative of New Zealand said that given the position held by the EC in the international dairy market as a result of its production and trade policies, a review of the market situation should inevitably include comments about developments within the domestic EC market and also about developments on export markets caused by EC actions. On the other hand, New Zealand's statement contained also comments on other factors affecting the market which had little to do with the EC, including the strengthening of the United States dollar. No reference was made to the market situation in the USSR because this matter had already been

covered in the discussion of sales under the Decision of 12 December 1990 (DPC/PTL/16). Finally, the statement provided a comment on the general market situation. Since this was the aim of deliberation under this agenda item, New Zealand being predominantly an exporting country inevitably had to focus its remarks on what was occurring in the international market.

Japan

33. Production of raw milk between January and March 1991 increased by 0.7 per cent compared to the corresponding period of the previous year. This constituted a partial recovery from the damage caused by the unusually hot weather in the summer of 1990, although the pace of recovery was rather slow. The demand for fresh milk for drinking continued to expand and showed a 2.7 per cent increase in the same period.

34. Production and stock levels of butter and skimmed milk powder declined towards the end of 1990, but were recovering since the beginning of 1991. Compared with output levels in the fourth quarter of 1990, production between January and March 1991 increased by 30 per cent for butter and 20 per cent for skimmed milk powder. At the same time, the Livestock Industry Promotion Corporation (LIPC) had released imported butter and skimmed milk powder onto the domestic market. As a result, stock levels of both butter and skimmed milk powder had increased from their levels at the end of 1990.

35. In March, the Japanese Government set the support prices for milk for the coming fiscal year, starting from April. For fiscal year 1991, the guaranteed price for milk for processing was set at 76.75 yen/kg. which represented a 1.3 per cent decrease from the previous fiscal year. The standard transaction price was reduced by 0.9 per cent to 65.40 yen/kg. and the deficiency payment which covered the difference between these prices was reduced by 3.7 per cent to 11.35 yen/kg. Japan's support price level for milk had been restrained in recent years. The guaranteed price had been reduced by 19 per cent over the last six years. The setting of price for the fiscal year 1991 had been particularly difficult as there had been

strong demands by dairy farmers for an increase of the support price to recover from the damage caused by the lower feed price for fattening calves which stemmed from the liberalization of beef imports.

36. Production of skimmed milk powder between January and March 1991, increased by 30 per cent over the previous three months. During the same period, imports of skimmed milk powder also increased to 26,900 metric tons due mainly to imports by the LIPC. The import price had dropped by 20 per cent since the first quarter of 1990, but the price of skimmed milk powder for human consumption in particular had increased since the end of 1990.

37. Production of butter increased like that of skimmed milk powder. Imports of butter between January and March 1991 totalled 2,700 metric tons mostly through the LIPC. The LIPC announced imports of 2,000 metric tons of butter and 12,000 metric tons of skimmed milk powder in April 1991. These quantities had already been imported and partly released onto the domestic market.

38. Since milk production was recovering slowly while consumption of fresh milk for drinking and production of butter and skimmed milk powder were expanding steadily, less raw milk had been available for natural cheese production with the result of a fall in cheese production in the period January to March 1991, compared with October to December 1990. On the other hand, imports of cheese were increasing along with an increase in demand which compensated the fall in domestic production. Imports of natural cheese in the first quarter of 1991 amounted to 29,600 tons and were substantially higher than in the corresponding quarter of 1990. Import prices of cheese in the first quarter of 1991 expressed in United States dollars, were similar to those of the corresponding period of 1991. However, prices at the c.i.f. level were lower by 30 to 40 yen per kg. in the first quarter of 1991 compared to the corresponding quarter of 1990. Japan's total consumption of cheese in fiscal year 1990 amounted to 153,000 tons. This figure did not match with the figures furnished in reply to Questionnaire 3, as in that reply consumption of natural cheese was 138,000 tons and processed cheese was 73,000 tons, giving a total of 211,000 tons. This was because, as shown in the footnote, the figure of natural cheese

included cheese for materials for processed cheese. According to the figures for fiscal year 1990, some 63,000 tons of natural cheese had been used for processing.

Hungary

39. In March 1991, the Committees had been informed that the year 1990 had been a difficult if not dramatic year for the Hungarian dairy sector. These difficulties continued in the first half of 1991, with domestic consumption persisting to decline although at a somewhat lower rate than in the corresponding period of 1990. The consumption subsidies for dairy products were now mostly eliminated, bringing about steeply increasing prices. According to preliminary data, even in the first quarter of 1991, consumption dropped by a further 5 per cent, on top of the nearly 20 per cent decrease which occurred in the last three years. The export possibilities had also deteriorated, partly due to a near collapse of trade with the former CMEA countries, especially with the USSR and partly due to the overall unfavourable situation in the international market.

40. Cattle herd numbers stood at 1.6 million head at the end of March 1991, which meant a further 2.4 per cent drop compared to 31 March 1990. The number of dairy cows had decreased even more: in three months, their number had dropped by some 2 per cent to 544 thousand head in March 1991 against 555 thousand in December 1990. The situation was a reflection of the deteriorating sales possibilities and conditions, but was also due to certain governmental measures. As the Committees had been informed in March 1991, it had been decided that a bonus would be provided to producers for the slaughtering of dairy cows. Due to these reasons, a further drop in cow numbers was foreseen for 1991. Contrary to forecasts, final data for 1990 showed that the deteriorating market situation and decreasing dairy cow numbers had already had an impact on milk production. The production figure of 2.52 million metric tons in 1990 was almost 10 per cent less than the 2.79 million tons produced in 1989. In 1990, the deliveries of large scale farms to the dairy plants had still remained almost unchanged but in the first quarter of 1991 a very substantial decrease had already taken place, deliveries being lower by some 14 per cent compared to the corresponding quarter of 1990.

41. As regards the individual products groups, the production of skimmed milk powder was 30 thousand tons in 1990, an increase of almost 30 per cent compared to the previous year. This reflected the necessity of processing larger quantities of milk which could not be sold as fresh products with a decreased consumption. There was also an increase for whole milk powder although at a lower rate, the production amounting to 8.2 thousand tons in 1990. In the first quarter of 1991, the production of all types of milk powders was 7 thousand tons, about 20 per cent lower than in the same period of the previous year. Domestic consumption has also decreased, although at a lower rate. In 1990, the consumption of skimmed milk powder was 18.3 thousand tons, only slightly lower than the 19 thousand tons in the previous year, while in the case of whole milk powder there was a drop of 600 tons to 3.3 thousand tons. The volume of exports in the first quarter of 1991 had apparently increased substantially, as stocks accumulated in 1990 were put on the market. Sales however were negatively influenced by payment problems in two important markets: the USSR and Yugoslavia. For the whole of 1991, with the decreasing production of milk powders, no major increase in export volumes was expected. There had been no import of milk powders in the recent period.

42. The production of butter had increased slightly in 1990, by 1 thousand tons to 38.1 thousand tons. In the first quarter of 1991, however, a 2.5 per cent decrease occurred and production amounted to 7.8 thousand tons. The consumption registered a very substantial drop of some 6 thousand tons, down to 26.2 thousand tons in 1990, again reflecting consumer response to increased prices. For 1991 a further drop, although at a lesser extent was expected. After a substantial increase to 9.3 thousand tons in 1990, exports decreased considerably in the first quarter of 1991, amounting to some 800 tons, a decrease of 20 per cent compared to the corresponding quarter of 1990. The payment problems experienced by some importers had also negatively influenced the export possibilities of butter. Prices were close to the minimum export price of US\$1,350 per ton f.o.b.

43. As regards the situation in the cheese market, after an almost 10 per cent increase of cheese production in 1990 to 63.6 thousand tons, a slight decrease occurred in the first quarter of 1991; at 12.8 thousand tons,

production was about 2 per cent lower than in the first quarter of 1990. The domestic consumption of cheeses also decreased in 1990 but at a lower rate than in the case of other dairy products. Consumption amounted to 43.9 thousand tons, some 6 per cent less than in 1989. Exports increased substantially in 1990, the main destination being Yugoslavia. In the first quarter of 1991, exports remained unchanged compared to 1990, amounting to 3.2 thousand tons. Within this figure the export volume of cheeses made of cow milk increased slightly, while sheep cheeses recorded a drop of more than 20 per cent. The price situation for cheeses was better than that for butter.

Australia

44. Total Australian milk production during the period July 1990-March 1991 was 5,370 million litres. This represented an increase of 2 per cent on the corresponding period for 1989-90. The main reason for this increase was the above average seasonal conditions during the late summer and early autumn which were experienced in much of South Australia, Tasmania and Victoria. Milk production in the 1990/91 season, at around 6,300 million litres, would be at the same level as in the previous season. Sales of market milk continued to increase, albeit in line with population growth. Some return to more traditional milks had been reported. However, this had not offset the general trend towards fat reduced milks.

45. Butter and butter oil production continued to increase with national production in the March quarter totalling 94,480 tonnes, up 3 per cent on last year. This reflected both increased manufacturing milk availability and, compared with cheese and whole milk powder, relatively better international market prospects for butter and skimmed milk powder. National retail sales of traditional butter grew by 2 per cent in the March quarter of 1991, partially encouraged by price discounting in the local market. Exports of butter and butter oil in the first ten months of 1990-91 were 48,909 tonnes or 14 per cent above the corresponding level in 1989-90. Within this category butter oil sales increased by 27 per cent to 21,161 tonnes. Ghee and bulk butter exports also rose by 19 per cent and

6 per cent respectively. Tinned butter exports, however, reflected the situation in the Middle East and fell by 15 per cent to 1,258 tonnes.

46. With the international casein market remaining depressed, skimmed milk powder production moved in line with butter/butter oil production. Production in the first three quarters of 1990-91 of 130,743 tonnes was 8 per cent above the corresponding level in 1989-90. Exports of skimmed milk powder in the ten months to April 1991 rose by 37 per cent to 97,214 tonnes compared to the preceding period in 1989-90, the major reason being increased exports to Asian destinations. As well, domestic consumption of skimmed milk powder was anticipated to be slightly higher in 1990-01 than in 1989-90. Buttermilk powder production in the first nine months of 1990-91 of 7,614 tonnes was equivalent to the level in the same period in 1989-90. Reduced exports in the first ten months of 1990-91 (down by 11.8 per cent to 6,525 tonnes) might lead to some increase in stocks. During this calendar year to date, whole milk powder production had reversed the trend of the previous six months by rising again. Overall Australian production in 1990-91 was expected to be similar to the 56,500 tonnes produced in 1989-90. The larger than anticipated export demand had stimulated production since January. Exports in the ten months to end April 1991 rose by 8 per cent to 35,795 tonnes.

47. Despite increased manufacturing milk availability, cheese production remained level during the nine months ending March 1991, compared with the nine months to March 1990, at around 150,000 tonnes. This trend, however, concealed changes in production by variety. Production of shredding cheese and of hard grating cheese increased by 15 and 24 per cent respectively. These increases were offset by reduced production of other varieties, mainly Cheddar production which fell by around 3.6 per cent or 8,673 tonnes. Total exports of cheese in the ten months to April 1991 had recovered compared to the ten months to April 1990. The two contributing factors were a 79 per cent increase in Australian Dairy Corporation Cheddar sales to Japan and a 22 per cent increase in export of non-Cheddar types, primarily shred-type cheese, to Japan. In contrast, exports of processed cheese declined by 5.7 per cent to 13,913 tonnes as a result of the Middle

East crisis. Total imports of cheese increased by 10 per cent to 22,106 tonnes in the first nine months of 1990-91 compared to 1989-90. New Zealand supplied most of this increase in cheese imports.

48. Export price ranges in the first quarter of 1991 were as below (f.o.b. per metric ton):

Skimmed milk powder	US\$1,300-US\$1,400
Whole milk powder	US\$1,325-US\$1,420
Buttermilk powder	US\$1,200
Butter	US\$1,350 (the minimum export price)
Anhydrous milk fat	US\$1,625 (the minimum export price)
Cheddar cheese	US\$1,550-US\$1,600

49. The representative of the EC noted the statement that Australian butter and butter oil production had continued to increase in the first quarter of 1991 reflecting, in particular, better international prospects for butter and skimmed milk powder compared with cheese and whole milk powder. However, the discussions in the Committees showed that the market situation for butter continued to worsen with the accumulation of stocks, following a persisting decline in butter consumption in many countries and an extremely weak international demand. He recalled that serious concerns had been expressed as to payment difficulties experienced by the USSR and a number of developing countries and as to uncertainties regarding the stability of the world market for butter caused by the appreciation of the United States dollar. The Community believed that the market situation for butter would continue to deteriorate while Australia seemed to be optimistic. He asked the representative of Australia to explain the reasons for this optimism.

50. The representative of Australia answered by referring to the ability of a market-driven system to spot the opportunities for butter sales. There was no other reason for explaining Australia's success in increasing its exports of butter. Even in a weak market situation, it had been possible to make substantial sales of butter while still respecting the

minimum price. Consequently, stocks at the end of June 1991 might be lower than at the end of March 1991. Because of that favourable situation, Australia was probably less active in the market at present than in the last six months. Moreover, the peak season in Australia was in the period between September and December and production in the period of June to August was low. His delegation hoped to furnish more detailed indications regarding the situation in and the evolution of the market for butter at the next meeting in September.

Argentina

51. In Argentina, milk production increased by 2.5 per cent in January, by 7.2 per cent in February and by 2.5 per cent in March of 1991 compared to the same months of 1990. However, production in April 1991 decreased by 0.65 per cent compared to April 1990.

52. Production of skimmed milk powder increased to 43,700 tons in 1990 compared to 34,000 tons in 1989. Exports amounted to 27,200 tons in 1990, an increase by 5.8 per cent compared to the previous year. The main destination was Algeria which took 55 per cent of the total followed by Brazil. Average export prices were quite high in the first three months of 1991. In January 1991, export prices were US\$2,100 per ton f.o.b. for Brazil, US\$2,700 per ton f.o.b. for Paraguay and US\$1,450 per ton f.o.b. for Peru. However, as from April 1991, export prices decreased sharply to a level close to the minimum export price of US\$1,200 per ton f.o.b.

53. Exports of whole milk powder, at 15,400 tons in 1990, decreased by 38 per cent compared to the previous year. The principal destinations were Brazil, Peru and the Philippines. In January 1991, export prices were US\$1,770 per ton f.o.b. for Brazil, US\$1,900 per ton f.o.b. for Peru, US\$1,950 per ton f.o.b. for Bolivia and US\$2,900 per ton f.o.b. for Paraguay.

54. Production of butter decreased to 40,000 tons in 1990, compared to 46,200 tons in 1989. Exports amounted to 7,400 tons in 1990 compared to 6,200 tons in 1989, an increase of 19 per cent. The main destinations were

Brazil with 66 per cent of the total followed by Algeria (25 per cent) and Chile (11 per cent). Average export price for butter sold to Brazil was US\$1,560 per ton f.o.b. in December 1990. In March 1991, export prices were US\$1,800 per ton f.o.b. for Peru. However, as from April 1991, sharp decreases were registered in export prices for butter.

55. Production of cheese increased to 271,200 tons in 1990 from 255,400 tons in 1989. Exports registered a substantial increase in 1990 (by as much as 60 per cent) totalling 22,570 tonnes. The main destinations were Brazil and the United States. Average export price for cheeses sold to Brazil was US\$3,350 per ton f.o.b. in the year 1990. In March 1991, export prices for the different varieties of cheese ranged between US\$2,900 per ton f.o.b. and US\$4,300 per ton f.o.b.

European Economic Community

56. Total milk deliveries in the 1990/91 quota year were 96.7 million tons for eleven member States or 1.1 million tons below the quota of 97.8 million tons. However, average milk fat content rose by 0.04 percentage points to 3.98 per cent in the quota year 1990/91. After adjustment for a higher milk fat, milk deliveries exceeded the quota limit by 300,000 tons which would be subject to super levy. Taking into account that adjustment, most of the member States had exceeded their reference quantities.

57. In the first quarter of 1991, butter production decreased by 5 per cent to 367,000 tons and skimmed milk powder output, at 330,900 tons, registered also a decrease by 5 per cent compared to the corresponding quarter of 1990. Despite these decreases in production, public stocks continued to grow and were presently at 400,000 tons for butter compared to 108,000 tons a year earlier and at 470,000 tons for skimmed milk powder compared to some 100,000 tons a year earlier.

58. A steady decline in exports was registered in 1990. The decreases were in the order of 60 per cent for butter, 11.5 per cent for butter oil, 17.5 per cent for skimmed milk powder and 11.5 per cent for whole milk

powder in 1990, compared to 1989. In the first quarter of 1991, further declines were registered in exports of skimmed milk powder (50 per cent), butter (13 per cent), butter oil (20 per cent), cheeses (10 per cent) compared to the corresponding period of 1990. However, whole milk powder exports recovered in that period.

59. In May 1991, the EC Council decided that the global milk quotas would be reduced by 2 per cent for the 1991/92 marketing year. The buying-in price for butter into intervention in 1991/92 was to be fixed by the Commission to take account of quantities offered and the state of the market. The buying-in price would not be lower than 90 per cent of the intervention price.

60. The representative of the EC underlined that while milk production had decreased in the Community, it had increased in other countries, in particular, in most of the countries participating in the Arrangement. For example, in New Zealand, a substantial increase in dairy herd coupled with good weather conditions resulted in increases in milk production. A comparison of the replies to Questionnaires 1 to 3 of the EC and New Zealand demonstrated clearly that while exports of the EC decreased sharply in 1990 and in the first quarter of 1991, New Zealand's exports registered substantial increases in the same period. New Zealand had to sell because it could not afford to keep any stocks; in addition, it had to sell at prices below the EC's prices. With regard to present export prices, it should be noted that New Zealand and Australia were selling butter and anhydrous milk fat at the respective minimum export prices while the EC had to keep a safety margin, because export prices by the EC depended on what the operators wanted as benefits.

61. The range of export prices on an f.o.b. basis, still the highest in the international market, were as below, despite the accusations that the Community was following an aggressive policy on exports:

between US\$1,250 and US\$1,300 per ton for skimmed milk powder;
between US\$1,280 and US\$1,330 per ton for whole milk powder;
between US\$1,360 and US\$1,400 per ton for butter;
between US\$1,650 and US\$1,800 per ton for anhydrous milk fat.

However, the Community was at present unable to effect sales of butter and butter oil. Moreover, the Community was still losing markets all over the world for most of dairy products. No sales were made at prices below the minimum export prices. The EC's prices were very stable and efforts were made to keep them stable as much as it was possible.

62. The representative of New Zealand said that although the EC had introduced mechanisms to control milk production, these measures had unfortunately not proven to be fully effective. In fact, as mentioned by the EC delegate, reference quantities had been exceeded in most member States and over-production had continued. The decision to make a further 2 per cent cut in milk quotas had to be welcomed but this decision was neither a long-term solution to the problems nor a substitute for a more fundamental adjustment to the support and protection regime in the Community. With regard to the comments by the EC that New Zealand had to sell because it could not afford to keep stocks, she noted that this was just part of the question. Participants to the Arrangement were well aware that New Zealand exported 80 per cent of the milk produced. The trade in dairy products continued to form a substantial part of New Zealand's whole economy. Producer prices for milk were determined directly by export market realizations and New Zealand needed and hoped to maintain a minimum return to producers. The current levels of the export restitutions of the EC could cause and in fact were at present causing a damaging effect on international trade. With regard to the level of milk production in New Zealand, she underlined that this level was determined by the export performance of the dairy industry relative to other alternative uses of the land, with short-term variations resulting from changing climatic conditions. The level of production had remained within a band unchanged over twenty years with minor fluctuations within that band from year to year. The increases in the dairy herd size had been minimal, in comparison to the herd size, within the Community. The fact that the EC export refunds were kept unchanged was a source of concern for New Zealand as the continued strengthening of the United States dollar against the EC's currencies resulted in a decrease in international prices. If EC restitutions were to be left unchanged for a long period of time when

market conditions and the value of the US dollar were changing, a serious damage could be caused to the market and to the credibility of the Arrangement. The EC relied only on export refunds to control export prices. In a situation where market prices were close to the agreed minimum export prices, the EC should set refunds in a way that allowed an adequate margin above the minimum prices or if this was not possible other more direct controls might be employed in order to comply fully with the minimum export price provisions of the Arrangement.

63. The representative of Australia said that in a document released by the EC Commission, a cut by 5 per cent of the milk quotas had been estimated necessary in order to restore some market balance within the dairy sector. Taking into account the current situation, he wondered whether the measures announced in May by the EC Council would be sufficient to restore balance. He expressed concern as to the current level of stocks and requested the representative of the EC to furnish a forecast on stock levels by the end of the year. According to allegations appearing in the public media, the EC was allowing traders to sell butter and butter oil at prices below the minimum export prices. He requested the representative of the EC to indicate whether there was a risk that the minimum prices might be breached and also to furnish information on the way the EC sought to address its obligations under the minimum price provisions of the Arrangement and whether there were any additional measures other than setting the refund level to ensure that the minimum prices were respected.

64. In reply, the representative of the EC said that according to figures from New Zealand's Statistical Office, the dairy herd in New Zealand had increased by 0.2 per cent in 1988, then by 3.2 per cent in 1989 and by as much as 4.9 per cent in 1990. It was not acceptable for EC farmers to see a reduction in the EC being compensated by increases in other countries. He recalled that total exports of the EC in milk equivalent in 1988 were 16.5 million tons (with fat content of 4.73 per cent). This average fell to 14.2 million tons in 1989 and to 12.9 million tons in 1990 (with fat content of only 3.39 per cent). This, combined with the steep reduction in consumption and exports, led to an increase in stocks. Community public

stocks might continue to increase until the end of July but hopefully a steep decrease was expected during the following months. The question of exports of 200,000 tons of butter to the USSR by the end of September posed difficult problems. If the deliveries fail to be realized due to payment difficulties on the USSR side, the stockpiling of such huge quantities of butter would be quite expensive and the situation was still uncertain. At the end of 1991, stocks of butter and skimmed milk powder might amount to some 500,000 tons for each product. If exports in 1990 were equal to those of 1988, not only a balanced situation would be restored but even a shortage situation would have appeared for certain products. This was why it was very difficult to assess if it was possible to restore a balance in the market situation. The Commission was of the opinion that the 2 per cent cut in milk quotas which it did propose was not enough in the present circumstances of exports and demand inside the Community to bring back a balanced situation. Indeed, the figure of a 5 per cent cut in milk quotas had been indicated but not as a final figure because such a cut would perhaps have brought a balanced situation for milk fat substances but it would have caused a shortage situation for nitrogenous substances. The Commission had indicated that due to the situation in the meat sector, the reduction in milk quotas had been limited to 2 per cent for 1991/92. For the 1992/93 quota year there might be a further reduction by 2 or 3 per cent of the quota in order to achieve a more balanced market situation if the world market situation would remain unchanged. With regard to certain allegations reported in the media, he underlined that such rumours were not founded and that some traders which were not satisfied furnished to the press information which was not completely correct. Moreover, if the Commission were to rely on the list of costs furnished by traders, the export refunds would have been the double compared to their present levels. All the accusations made on this subject were based on theoretical calculations while in setting the export refunds, the EC took into account the market realities. He reiterated that EC prices were very stable and that export prices were still the highest in the world. The effects on the international market were that EC exports were decreasing while sales by others were increasing. Therefore, his delegation cannot accept accusations that the Community was following an aggressive export policy and undercutting prices.

Switzerland

65. In Switzerland, milk deliveries in 1990 at 3.02 million tons were 3.1 per cent down on the previous year. In the first four months of 1991, however, deliveries totalled 1.02 million tons compared to 980 thousand tons in the corresponding period of 1990, an increase of 0.4 per cent.

66. Skimmed milk powder production remained stable during the first quarter of 1991 at about 7,600 tons. Consumption decreased in that period leading to an increase in stocks. Switzerland intended to export soon about 1,200 tons of skimmed milk powder.

67. Butter production declined by 1.2 per cent from 8,100 tons to 8,000 tons during the first quarter of 1991. During that period, imports recovered and rose to 1,700 tons as compared to 300 tons in the first quarter of 1990. Butter consumption increased by 4.7 per cent from 8,600 tons during the first quarter of 1990 to 9,000 tons during the first quarter of 1991. Stocks remained relatively stable at 5,200 tons on 31 March 1991, compared to 4,700 tons a year earlier. Import prices remained high averaging US\$1,625 per ton, free at Swiss border.

68. Cheese production registered a slight increase of 0.7 per cent in the first quarter of 1991 totalling 30,000 tons. In that period, imports increased by 6.7 per cent to 6,400 tons and exports were up by a mere 0.7 per cent to 13,800 tons. Consumption remained stable at 21,600 tons. Stocks at 24,500 tons on 31 March 1991 were considered to be normal. Export and import prices remained high in the first quarter of 1991, averaging respectively US\$7,400 and US\$6,700 per ton.

Sweden

69. In Sweden, both production and exports of skimmed milk powder decreased by about 35 per cent in the first quarter of 1991 compared to the corresponding quarter of 1990. It was forecast that these trends would continue throughout 1991 and in 1992. As regards exports, this development could partly be explained by the abolishment of export subsidies for dairy

products. However, it should be highlighted that 1990 had been a year with exceptionally high production of skimmed milk powder. A substantial part of the production had consequently to be exported. Average export price in early June 1991 was reckoned at US\$1,250 per ton f.o.b.

70. Butter production, in the first quarter of 1991, totalled 11,700 tons, a decrease of 20 per cent compared to the corresponding quarter of 1990. Although exports - mainly the remaining deliveries to the USSR - increased significantly during the first quarter of 1991, the forecast was that exports would decrease in the calendar year 1991. According to preliminary data, only insignificant quantities of butter were exported during April and May 1991. In this connection, concerns were expressed with respect to payment difficulties experienced by the USSR. In June 1991, export price for butter was estimated at US\$1,350 per ton f.o.b. However, it had lately been very difficult for Swedish exporters to find customers willing to pay prices at or above the minimum export price of US\$1,350 per ton f.o.b. for butter.

71. As regards cheese, production increased slightly during the first quarter of 1991 but exports remained stable. The forecast was that exports of cheese would decrease during 1991 as a result of the new agricultural policy. Annual consumption of cheese which amounted in the early seventies to 9 kgs. per capita, had now almost doubled reaching 16 kgs. per capita. Total domestic consumption amounted in 1990 to 130,500 tons of which some 20,000 tons (or 15 per cent) were imported cheeses.

Norway

72. Total milk deliveries in Norway during the first three months of 1991 were 468.6 million litres, a reduction by 6 per cent compared with the same period last year. All in all, total milk deliveries for 1991 were estimated to be just below 1,800 million litres, a reduction by 3 to 4 per cent compared with 1990. This reduction was a result of changes in the two-price system in Norway. In the spring of 1991, the production

objective concerning milk had been reduced. The whole agricultural policy was presently being discussed, and this might result in a further reduction of the production objectives.

73. Production of skimmed milk powder during the first quarter of 1991 fell by about 30 per cent compared with the corresponding quarter of 1990. Consumption was slightly down compared to 1990. It was expected that a small increase in production during the second quarter of 1991 would cover the demand in the domestic market. A limited quantity was exported during the first quarter of 1991.

74. Production of butter dropped by 12 per cent during the first three months of 1991, compared with the same period last year. This decline was a result of stronger demand for whole milk than expected and the reduction in milk deliveries. Moreover, conscious efforts to reduce butter production were made. Butter consumption increased by some 8 per cent in the first quarter of 1991 compared to the corresponding period in 1990. This was a change from earlier years when butter consumption had been decreasing. It was presumed that this was a result of changes in consumer preferences. Butter exports in the first quarter of 1991, at 1,836 tons, were halved in relation to the corresponding quarter of 1990. Prices were at the minimum export price of US\$1,350 per ton f.o.b. Lower production and higher domestic consumption should entail lower exports also in the future. There were no butter imports during the first three months of 1991.

75. As a result of the decline in milk deliveries, production of cheese decreased by 10 per cent during the first quarter of 1991 compared to the corresponding period of 1990. This declining trend was likely to continue through 1991 and cheese production was expected to fall by 6 per cent in 1991 compared to 1990. Cheese consumption increased by 12 per cent in the first quarter of 1991. It was forecast that for the whole year 1991, consumption would increase by 8 per cent compared to the previous year. Exports of cheese for the whole year 1991 were expected to be lower than in 1990. As a result of both higher domestic production and lower milk

deliveries, cheese exports in the first quarter of 1991, at 5,685 tons, were down by 20 per cent compared with the first quarter of 1990.

Finland

76. In Finland, milk deliveries during the first quarter of 1991 were 5 per cent lower than in the corresponding period of last year. Preliminary figures for January-May 1991, showed a decrease of 7.2 per cent compared to the corresponding period of 1990. This rapid decline was a result of a milk cessation scheme, which was implemented in December 1990/January 1991, covering 230 million litres of milk. In 1991, deliveries were expected to decrease by 9 per cent to 2,370 million litres.

77. The production of skimmed milk powder increased by 35 per cent during the first quarter of 1991 compared to the corresponding period of 1990. Stocks at the end of March were 12,900 tons and might remain almost unchanged throughout the year.

78. The production of whole milk powder was exceptionally low as it had been in 1989. In the first quarter of 1991, some 2,930 tons were exported at an average price of US\$1,400 per ton f.o.b. Stocks at the end of March were 1,900 tons.

79. Butter production during the first three months of 1991 was about 2 per cent higher than in the same period last year. Estimates for the whole year 1991 indicated that production would decrease by 10 per cent to 56,000 tons. In the first quarter of 1991, compared to the first quarter of 1990, consumption increased exceptionally by 41 per cent. This was mainly due to a remarkable (FIM 6/kg., i.e. 15 per cent) consumer price decrease. Estimates for the whole year indicated an increase of 9 per cent. In January-March 1991, 7,700 tons of butter were exported at an average price of US\$1,308 per ton f.o.b. The main part (6,800 tons) of these exports were under derogation to the USSR which could, in conformity with the Decision of 12 December 1990, be sold at a price below the minimum export price. Stocks at the end of March 1991 were at the very low level of 4,000 tons.

80. As regards cheese, the production decreased by 6.5 per cent in the first quarter of 1991 as compared to the first three months of 1990. Estimates for the whole year indicated a 5 per cent decrease in production compared to 1990. Consumption was increasing. In the first quarter of 1991, some 5,200 tons of cheese were exported at an average price of US\$3,920 per ton f.o.b. Stocks at the end of March were 14,500 tons.

Romania

81. The representative of Romania furnished information on domestic policies and trade measures. After the December 1989 Revolution, Romania embarked upon a wide process of openness and democratization of the entire social, economic and political life. The main overall objectives were the rapid economic changes aimed at moving to a market economy. The Government took measures aimed at dismantling the bureaucratic and administrative methods of the centralized management of agriculture and implementing the mechanisms based on economic criteria. Measures of agricultural policy applied in 1990 consisted of:

- (a) Abolishing the rigid and super-centralized planning system, which also affected the imports of dairy and meat products of the country and replacing it with indicative economic programmes. The peasants were free to decide upon the structure of cultures, livestock and dairy products as well as their marketing.
- (b) The expansion of private sector in agriculture by the gradual privatization of land and livestock, even through the setting up of new enterprises on the basis of free initiative.
- (c) Full autonomous management of agricultural enterprises. Once Law No. 15/1990 on the re-organization of State enterprise as "régies autonomes" and commercial companies and Law No. 31/1990 on trading companies were promulgated, nineteen State enterprises and centrals had been closed down and 650 stock companies were set up not only in agriculture but also in the food industry.

82. As regards agricultural legislative measures taken in 1991, the development of private property in agriculture was re-established recently by the adoption and the application of Law No. 13/1991 on land ownership. The Law provided for the return of the land to its former owners or their inheritors and the allocation of land to the other peasants, through the liquidation of the existing co-operatives. By the effect of this Law, about 75 per cent of the country's agricultural land (cca. 7 million ha. arable land) would become private property. The Law granted the right of private owners to associate with a view to setting up agricultural production and/or trading companies.

83. Significant changes took place as regards production, consumption and prices of dairy products. Cow's milk and buffalo cow's milk production dropped from 41,194 thousand hl. in 1989 to 40,311 thousand hl. in 1990, while average yield per animal obtained in the private households reached 2,073 litres. Milk powder, butter and cheese production amounted in 1990 to 27,000 tons, 33,300 thousand tons and 95,000 tons respectively. In the first quarter of 1991, production of cheese raised by 14.3 per cent, while that of butter dropped by 21.5 per cent compared to the corresponding quarter of 1990. In 1990, domestic consumption amounted to 48,490 tons for butter, 107,700 tons for cheese and 32,300 tons for milk powder. In the first quarter of 1991 compared to the first quarter of 1990, the deliveries to the domestic market represented 77 per cent for milk for consumption, 121.1 per cent for fresh milk products and 84.4 per cent for milk powder. In 1990, the consumption per capita increased by 3.2 per cent for milk and milk products (except butter) in fresh milk equivalent (3.5 per cent fat content) and by 124.7 per cent for butter compared to the previous year.

84. In 1990, the evolution of prices had been mainly influenced by the fact that up to 31 October 1990 the price formation system based on the administrative intervention and subsidies was in force without taking into consideration the action of supply and demand. On 10 November 1990, the first stage of the price liberalization process, accompanied by adequate social protection measures, was launched through the adoption of a number of measures to that effect. During this stage of price reform, for a

limited number of products of special importance for the consumption of population (including milk), the prices remained practically unchanged on State markets, while on free markets the prices of dairy products raised consistently. The second stage of this process of price liberalization was launched on 1 April 1991. Prices provisionally maintained at fixed levels after 10 November 1990, had also been liberalized in order to contain strong inflationary pressures, maximum ceilings or increase indexes had provisionally been established. According to Government Resolution No. 243/3 April 1991, the contracting and acquisition prices guaranteed by the State were raised; thus the private and co-operative animal breeders were stimulated to increase the deliveries to the State.

85. In 1990, exports of dairy products were forbidden due to the domestic market shortage. Imports of dairy products amounted to 12,700 tons of cheese, 6,900 tons of milk powder and 23,800 tons of butter, out of which 12,500 tons of butter within the food-aid programme. In 1991, the export ban of dairy products was eliminated, such operations being subject to the notice of the Agriculture and Food Ministry. No surcharges and no quantitative restrictions for imports of dairy products had been introduced so far.

86. As regards the tariff liberalization measures, the customs tariff became the most important and effective trade policy instrument. A number of tariff liberalization measures were promoted. Thus, by Government Resolution No. 1274/1990, enacted 1 January 1991, temporary reductions of customs duties were granted on imports of products which were in short supply on the domestic market. Products under 82 tariff heading of BTN (Brussels Tariff Nomenclature), including four for dairy products, benefited for such reductions which remained in effect until a new customs tariff would be introduced. Work was currently being carried out on a new tariff, based on the Harmonized Commodity Code Nomenclature (HS). The new customs tariff was to be finalized in the second half of 1991.

Poland

87. The representative of Poland said that despite some signs of recovery, the economic situation remained difficult, with falling output, rising unemployment and inflationary pressures. Some positive results of the reforms that had been undertaken may nevertheless be observed:

- currency stability despite the recent 15 per cent adjustment;
- curbing of inflation, stabilized at a rate of between 3-4 per cent per month;
- restructuring of relative price levels, which are approaching international price levels;
- elimination of State subsidies;
- liberalization of foreign trade.

88. As regards problems of the dairy sector, prices of dairy products had risen rapidly as a result of the elimination of subsidies, inflation, dear credit and rocketing energy and transport costs. This had led to a sharp fall in domestic demand, but had also hindered exports as inflation raised prices while a stable exchange rate wiped out export profits. In the last twelve months, domestic prices had increased to US\$1,100 per ton for skimmed milk powder, US\$1,150 per ton for whole milk powder, US\$1,300 per ton for butter and US\$1,500 per ton for cheese. In 1990 and in early 1991, sharp decreases had been registered in the production of milk and various dairy products.

89. Milk deliveries, at 9.7 million tons, decreased by 17 per cent in 1990 compared to 1989. They decreased by a further 20 per cent in the first five months of 1991 as compared to the corresponding period of 1990.

90. The production of skimmed milk powder amounted to 174,000 tons in 1990, a decrease by 8 per cent compared to the previous year. Output decreased by a further 3 per cent to 37,150 tons in the first quarter of 1991 compared to the corresponding period of 1990. Exports were at 9,700 tons during the first quarter of 1991.

91. The production of whole milk powder decreased by 2.5 per cent to 7,800 tons in 1990 compared to the previous year. However, production remained stable at 4,800 tons during the first quarter of 1991 compared to the corresponding quarter of 1990. Exports and imports were nil in the first three months of 1990.

92. The production of butter, at 270,000 tons in 1990 remained unchanged compared to the previous year. However, output in the first quarter of 1991, at 50,000 tons registered a substantial decline (by 31 per cent) compared to the corresponding period of 1990. Exports and imports of butter in the first quarter of 1991 amounted respectively to 1,000 and 2,000 tons.

93. The production of cheese amounted to 124,000 tons in 1990, a decrease by 5 per cent compared to 1989. Output decreased by 4 per cent to 27,500 tons in the first three months of 1991 compared to the first quarter of 1990. Exports and imports of cheese in the first quarter of 1991 were respectively at 500 tons and 2,000 tons.

94. Export prices were controlled by an export licensing system. All dairy products subject to the minimum price provisions of the Arrangement had been subject to the export licensing system since November 1990. At present, this was the only system of control since customs declarations had still not been fully computerized. Reliable statistics for Poland would only be available as from 1 January 1992.

95. In reply to a question by New Zealand related to sales of skimmed milk powder at prices below the minimum export prices, the Polish representative reconfirmed that the Administration was now able to supervise exporters in

their adherence to the minimum export prices agreed under the Arrangement. Moreover, domestic prices of skimmed milk powder had doubled in a year and it would be very difficult, even impossible, for exporters to sell at prices below the minimum export price.

South Africa

96. In South Africa, there was still a surplus of industrial milk products at the end of the first quarter of 1991. During the twelve months ending March 1991, the production of milk increased by almost 7 per cent compared to the previous twelve-month period. The primary consumption of industrial milk was more or less at the same level as the previous year. It was estimated that the production of milk in the second quarter of 1991 would be more or less 2.6 per cent higher than in the second quarter of 1990 and approximately 10.7 per cent lower than the first quarter of 1991 mainly due to the normal decline in milk production during the winter months. The consumption of milk in its various forms would be 3.1 per cent lower during the second quarter of 1991 as compared to the previous quarter.

97. It was expected that the production of skimmed milk powder would be 7,094 tons in the second quarter of 1991, which would be 1.7 per cent less than the 7,216 tons produced in the first quarter of 1991. Consumption was expected to be around 4,166 tons in the second quarter of 1991 or 6.3 per cent less than in the previous quarter. In the first quarter of 1991 exports of skimmed milk powder amounted to 1,809 tons, while no imports were recorded. By the end of March 1991, stocks reached a level of 10,682 tons and were expected to increase to 13,610 tons by the end of June 1991.

98. The production of whole milk powder in the first quarter of 1991 at 3,137 tons, was expected to decrease to 778 tons in the second quarter of 1991. Consumption during the same period at 2,374 tons was expected to increase by around 3 per cent to 2,454 tons in the second quarter of 1991. No imports were recorded for the first quarter of 1991 and none were expected for the second quarter. Exports in the first quarter amounted to 271 tons. Stocks at the end of March 1991 reached 3,256 tons and were expected to decrease to 1,579 tons at the end of June 1991.

99. Butter output in the first quarter of 1991 at 5,805 tons was 9.7 per cent higher than expected, but it was expected to fall to a level of 4,976 tons during the second quarter of 1991 while consumption was estimated to total 3,912 tons during that period. A total of 564 tons of butter were exported in the first quarter of 1991. Stocks at the end of the first quarter at 6,385 tons were slightly higher than in the previous quarter.

100. Cheese production was expected to reach a level of 9,421 tons in the second quarter of 1991, a decrease by 12.5 per cent as compared to the previous quarter. No imports or exports of cheese were anticipated. Stocks reached 10,235 tons by the end of March 1991, and were expected to decrease to 9,409 tons by the end of June 1991.

Canada

101. Regarding price developments, the observer from Canada said that the target price for industrial milk had been set at Can\$48.69 per hl. on 1 August 1990. This price would be maintained until the end of the current dairy year and was not expected to be raised for the dairy year beginning on 1 August 1991. As regards the production volumes, the total Market Sharing Quota (MSQ) had been cut by 3 per cent from the 1988-89 to the 1989-90 dairy year and then cut a further 3 per cent from 1989-90 to the current dairy year. Total MSQ will remain at 44.7 million hls. to the end of the current dairy year and was presently forecast to be reduced once again by approximately another 3 per cent in the dairy year beginning 1 August 1991. It was expected that actual production of industrial milk this year will exceed the MSQ by less than 2 per cent. Fluid, or table, milk production was expected to continue an upward trend in the current dairy year. However, sales of standard or whole fat milk had continued to decline and would be about 6 per cent below year earlier levels. On the other hand, sales of low fat milk and fluid cream were both forecast to go up by 2 per cent this year. Since its introduction on the Canadian market last May, milk with 1 per cent butterfat had captured almost 6 per cent of the total market for fluid milk. It was believed that sales of 1 per cent milk would continue to rise, resulting in additional skim-off of butterfat and further downward pressure on the total MSQ for industrial milk.

102. Butter production was slightly higher than in the same period in the previous dairy year, but was forecast to total no more than 99 million kgs. for the year as a whole, representing a drop of 1.6 per cent. Stocks of butter were expected to show a year-over-year drop of 3 million kgs. by the end of the current dairy year, in spite of a 3 per cent decrease in consumption.

103. Cheddar cheese production would increase by almost 2 per cent in the 1990-91 dairy year, with domestic disappearance remaining fairly stable. Consumption and production of speciality cheeses would both rise by about 2 per cent.

104. With respect to skimmed milk powder, production would show a sharp decline of over 8 per cent, while consumption would drop by about 7 per cent. This would result in a reduction of year-end stocks, as well as a drop in the volume of skimmed milk powder exports.

105. There were no dramatic developments during the period under review, which was characterized by a further shrinking of the Canadian industrial milk sector mainly resulting from the shift in consumer tastes away from products containing higher levels of butterfat.

Economic Commission for Europe

106. The observer from the Economic Commission for Europe informed the Committees that for the first time in recent years, milk output in the USSR had declined during the first quarter of 1991. The drop corresponded to about 10 per cent compared to the first quarter of 1990. Poor feeding conditions, quality as well as quantity, lower animal numbers and reduced milk yields per cow were the main reasons for this decline. Butter production also declined significantly by 16 per cent and so did also cheese output, which registered a drop of 14 per cent. Milk powder production went down by about 7 per cent.

107. In April 1991, the USSR increased significantly retail prices for food commodities. Prices of dairy products increased by about 130 per cent with larger increases for butter which went up by 278 per cent and cheeses by 200 per cent. Margarine prices were also raised by 200 per cent. The USSR Government announced at the same time accompanying income compensations. It was difficult at this stage to determine the impact of all these new developments on the USSR market, especially on the demand side. Consumption in the USSR had been kept so far at relatively high levels by massive subsidies; these disappearing, consumption of certain dairy products could start to decline. This could have a serious repercussion on international dairy products trade, namely butter. Moreover, the lack of hard currencies might have negative effects on imports of butter, as also the need for the USSR to import other agricultural products like cereals, meat, etc. For these reasons, under normal conditions, annual imports of butter might not exceed 200,000 tons while imports averaged some 350,000 tons between 1987 and 1990. However, if butter was to be offered at exceptionally low prices, substantial quantities could again be imported.

Request for a derogation by South Africa

108. The Committee of the Protocol Regarding Certain Milk Powders and the Committee of the Protocol Regarding Milk Fat had before them a communication from the South African Permanent Mission circulated under the symbol DPC/PTL/53, requesting derogations under Article 7 of the two Protocols in order to remedy difficulties which observance of minimum prices was causing.

109. The representative of South Africa said that his country was a small player in the international dairy market and traditionally a net importer of dairy products. Cyclical shortages of milk solids occurred regularly followed by shorter periods of over-supply or surpluses. Since the beginning of 1990, South Africa had experienced a situation of moderate over-supply of milk (+ 6.6 per cent) together with a decline in the total consumption of dairy products (- 1 per cent) which resulted in the building up of surpluses of skimmed milk powder and butter. Economic factors were

mainly responsible for the build-up of stocks. Butter stocks at the end of the first quarter of 1991 had been around 6,500 tons. Stocks of skimmed milk powder might reach an estimated total of 13,600 tons at the end of June 1991. In view of this, the South African dairy sector presently found itself in a very difficult situation.

110. During the Tokyo Round of the Multilateral Trade Negotiations, in the Sub-group on Dairy Products, South Africa had noted that problems encountered in the international trade in dairy products were almost entirely due to the policies pursued by some major dairy producing countries. South Africa had also stated then that an international agreement on, inter alia, milk powders, could not solve the international trade problem by setting high minimum prices and that South Africa had found it difficult to see how it could benefit unless access to world markets would be permitted in times of surpluses. This was exactly the problem South Africa was facing at the moment.

111. The difference for example, between the GATT minimum export price for skimmed milk powder and the prevailing world price was marginal. A number of countries had admitted that no sales could be made at the minimum price during the last few months. The prices that could be realized by smaller member countries such as South Africa vary around US\$950 per ton presently. It had become more and more apparent that price takers such as South Africa could not compete with the major dairy exporting countries under circumstances where the international market price equalled the GATT minimum export price. The protection of exports by means of setting high minimum prices thus prevented exports from price taking exporting countries, and it was contrary to the basic objective of the Arrangement. In addition to this, South Africa was in a process of fundamental restructuring where the financing of social and socio-economic programmes took a higher priority than subsidizing the dairy industry. Under these circumstances, stocking of butter and skimmed milk powder could not continue and the surplus product would have to be cleared away.

112. The representative of South Africa stated that in order to solve the problem, he would like to propose three solutions. He said that, as a first solution, in conformity with Article 7 of the Protocols, he was instructed by his authorities to request formally during this meeting a derogation from the provisions of Article 3 of the Protocols in order to exempt South Africa from the minimum price commitments in respect of skimmed milk powder and butter until the end of February 1992. The quantities involved around 6,000 tons of skimmed milk powder and 6,000 tons of butter. As a global solution, to accommodate all participants including the price takers, he wished to suggest that all participants should be allowed to export specific quantities of skimmed milk powder and butter per year without any commitment as to prices but full notification. A third solution would be to adjust relevant minimum prices downward in order to serve as safety net prices and not as "support prices" as currently was the case.

113. The representative of the EC said that a general solution would be appropriate to alleviate the difficulties encountered by South Africa. The present market situation was characterized by an extremely weak demand for certain products, notably butter, and it was very difficult to find buyers that were prepared to pay the price of US\$1,350 per ton f.o.b. for butter, i.e. the minimum price. For this reason, the Committees should initiate a discussion on the level of the minimum prices in the present meeting, although this matter was traditionally discussed in the September session. He recalled that as distinct from the provisions of Article 3:3(b) regarding the annual review of the level of the minimum prices the provisions of Article 3:3(a) allowed a discussion on a possible modification of the levels of the minimum prices at any time, taking into account the evolution of the situation of the international market. With regard to the first proposal by South Africa, it would be inappropriate to grant a derogation for the sale of such small quantities, i.e. 6,000 tons for skimmed milk powder and 6,000 tons for butter. It would be an invitation to importers just to wait for another participant requesting a similar derogation. With regard to the second proposal by South Africa, he considered that a general derogation for specific quantities granted to all

the participants would have damaging effects on the international market situation. He stated that for these reasons, the first and second solutions proposed by South Africa were unacceptable for the Community. He reiterated that some kind of joint action would be appropriate to alleviate the difficulties encountered by South Africa and that the participants should proceed at the present session to a review of the level of the relevant minimum prices on the basis of the third solution suggested by South Africa and in conformity with the provisions of Article 3:3(a) of the Protocols.

114. The representative of New Zealand stated that her delegation did not look favourably on any of the three solutions suggested by South Africa. With regard to the request for derogations, either a separate derogation or a general derogation for all participants, New Zealand would share the points made by the Community. In this connection, she drew to the attention of the Committees that at the previous meeting New Zealand suggested several alternatives to South Africa to overcome its present difficulties (DPC/PTL/18, paragraph 108). An additional alternative would be to furnish certain quantities of butter and skimmed milk powder to developing countries by way of food aid. With regard to the third possible solution, i.e. adjusting downward the relevant minimum prices, New Zealand did not under-estimate the difficulties in the market for dairy products at the moment, notably for butter. Nevertheless, a downward adjustment of the relevant minimum prices would not resolve the problems created by a high level of protection which disrupted trade; moreover it would not result in any way in additional sales and would not create new buyers in the international market; therefore, it was not a viable solution. Such a solution would be a move further away from the fundamental objectives of the Arrangement which included the objective of providing a minimum economic return to the most efficient producers. In conclusion, she recalled that traditionally the levels of the minimum prices were subject to review each year in September. This item would be, as usual, in the agenda of the next regular sessions in September 1991.

115. The representative of Australia gave his full support to the views and ideas expressed by New Zealand. He said that before the Committees undertake a review of the levels of the minimum prices in September or earlier if the need to consider that question at short notice arose, his delegation would be first of all very satisfied as to the veracity of the current levels of the minimum prices and as to the capacity of each participant to respect these levels. He recalled that his delegation had proposed to the participants to advise the secretariat, if they wished, of the measures taken to ensure the observance of the Arrangement's minimum prices. He proposed that the secretariat prepare a factual document setting out, as advised, those measures taken by each participant to ensure that export prices of the products covered by the Protocols were not less than the minimum prices applicable under the Protocols. Some participants, including Australia, had already provided information on this matter. He recalled that his own country had very strict legislation and was therefore strictly adhering to the minimum prices set out by the Arrangement. If other delegations felt that such factual information would be useful for the work of the Committees, then his delegation would urge the secretariat to attempt to provide that information as soon as possible, perhaps by the end of July 1991.

116. The representative of New Zealand gave her support to the proposal made by Australia.

117. The representative of the EC, however, repeated that by signing the Arrangement the participants had undertaken the steps necessary to ensure that the export prices would not be less than the minimum prices applicable under the Protocols. There was no commitment under the Arrangement to provide written information on the measures taken to ensure the observance of the Arrangement's minimum prices. Moreover, in conformity with the Arrangement, participants were not required to disclose certain information which was considered to be confidential. Therefore, he wished to reiterate that the Australian request was redundant.

118. The representative of Switzerland noted that the international law prevailed over national law. The acceptance of the International Dairy Arrangement by governments meant that in conformity with Article 3:1 of the Protocols the steps necessary to ensure the observance of the minimum prices would be taken. Therefore, it was not necessary to furnish further written information. With regard to the third proposal made by South Africa, he said that, during their September session or even earlier, the Committees needed to have an overall view of the problems regarding the evolution of the market situation and examine all possible solutions.

119. The representative of South Africa underlined that a discussion on the basis of his third proposal, i.e. a downward adjustment of the relevant minimum prices, should be initiated before the next regular session in September 1991.

120. The representatives of the EC and the Nordic countries shared the views expressed by South Africa. They added that the Committees should proceed to identify possible general solutions as a matter of urgency in order to alleviate the difficulties encountered by South Africa.

121. The representatives of Australia and New Zealand believed that the question of any decision regarding a modification of certain minimum prices at the present meeting would be premature. They also believed that the Committees should pursue further their considerations of prices as well as any other options and hopefully settle the matter at their next regular session in September 1991.

122. The representative of the EC reiterated that the discussion for finding possible solutions to the present problems of the international market for certain dairy products and to the difficulties encountered by South Africa, should be dealt with as a matter of urgency. He observed that South Africa could not afford to continue stocking surplus products. The Committees should embark on this discussion at the present meeting or as soon as possible and not wait until the next regular session in

September 1991, when the situation might unfortunately be worse than it was at present. Referring to his statement made under the previous agenda item, he recalled that the Community had made an evaluation of the market situation and outlook and had put forward its views on the fundamental reasons of the present situation.

123. The representative of South Africa gave his full support to the ideas expressed by the Community. He said that in addition to his introductory statement on South Africa's request for a derogation, he would now like to make a few further comments to put this request in perspective. He hoped it would be of assistance to New Zealand in order to come to a positive conclusion. As stated previously, South Africa was a marginal player in the international dairy markets and therefore had no major impact on the markets. His country was well aware of the problems facing the international market and not in a position, nor was its intention as a responsible participant, to destabilize the market. That would serve no purpose. He recalled that South Africa had approached the Committee with a similar request in June 1990, but had been advised by participants to withdraw it. Since then his country had further pursued all other commercial avenues available. Being of Africa, South Africa was already actively involved in aid programmes and food aid, in this case, as an alternative had also been considered but due to financial reasons it had not been feasible. The social uplifting programmes of the Government were enjoying top priority and were placing an extreme burden on financial resources. The EC was right when it observed that South Africa could not afford to continue stocking surplus products. He noted with regret that no agreement had been reached at this meeting on his three proposals, i.e. to grant a separate derogation for South Africa or to grant a more general derogation allowing participants to sell specific quantities per year without any commitment as to prices but with full notification or to adjust relevant minimum prices downward.

124. Summing up, the Chairman observed that the opinion had prevailed that while some kind of joint action would be appropriate to alleviate the difficulties encountered by South Africa, the Committees had felt that more time was needed for examining possible solutions. A consensus was

apparently not emerging as to the granting neither of a separate derogation for South Africa nor of a more general derogation allowing participants to sell specific quantities at prices below the agreed minimum prices and with regard to a possible downward adjustment of the relevant minimum prices, positions of delegations differed considerably. In this situation, the Committees agreed to pursue further their considerations of prices as well as any other options and hopefully settle the matter at a later stage.

125. The representative of South Africa said that his delegation took note of the decisions by the Committees of the Protocol regarding Certain Milk Powders and the Protocol Regarding Milk Fat. He wished to state briefly that in the preamble to the Arrangement the need was recognized, in the mutual interests of producers and consumers, and of exporters and importers, to avoid surpluses and shortages, and to maintain prices at equitable levels. Article 1 of Part One of the Arrangement, which dealt with objectives, also stated that both importing and exporting, developed and developing countries should benefit on a mutual basis under the provisions of the Arrangement. South Africa had fully supported this objective in the past and it still did. It would continue to do so in the future but only as long as the commitments under the Arrangement were reasonable for all participants to respect and non-participants to pursue. Participants would agree that only under such circumstances would it be possible for this Arrangement to achieve its objectives. He shall convey the decisions of the Committees, which severely limited the options left open to South Africa, to his authorities

126. The representative of the EC stated that he reserved the right of the Community to request the Chairman to convene a special meeting before the next regular meetings in September 1991.

Relationship between minimum export prices fixed for pilot products

127. The Committees had a discussion on the relationship between minimum export prices fixed for pilot products. They took note of a comment that it might be appropriate to re-examine the ratio between the minimum export prices for butter oil and butter. Participants wanted to reflect further

on the matter and it was agreed to revert to it at the next regular meetings in the framework of the review of the level of minimum prices. Participants wishing to furnish background notes in this connection were invited to do so well before the September meetings.

Adoption of report to the Council

128. 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/19.

Date of next meetings

129. The next regular sessions of the Committees will be held consecutively on 16 and 17 September 1991, subject to confirmation by the secretariat.