GENERAL AGREEMENT ON

TARIFFS AND TRADE

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International Dairy Arrangement

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

Draft Report of the Forty-Eighth Session

9 December 1991

Introduction

1. The three Protocol Committees held a joint session on 9 December 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-seventh session

B. Information required by the Committees:

(i) Replies to questionnaires (respectively

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

(ii) Summary tables

(iii) Other information

C. Transactions other than normal commercial transactions

D. Sales under derogation

E. Review of the market situation

F. Review of the level of minimum prices under Article 3:3(b)

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-seventh session

3. The report of the forty-seventh session was adopted as amended and distributed in document DPC/PTL/21.

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 third quarter of 1991 to do so without further delay. They were also requested to provide all the relevant information concerning the fourth quarter of 1991 by 13 March 1992, at the latest.

5. The representative of South Africa recalled that questions had been raised regarding the values and destinations of South African exports during the September session of the Protocol Committees. The South African representative then had indicated that the compilation of the statistics would be investigated and an updated response to the questionnaire submitted shortly. As a result of this, reporting procedures had been updated and although some difficulties were still being experienced in this regard, the Dairy Board was in the process of compiling an updated version of the questionnaire. Due to certain logistical problems, however, the

questionnaire could not be completed in time for the present meeting. Rather than supply a set of data which would have to be updated by the time the next questionnaire was due, it had been decided to postpone the submission thereof until the responsible authorities were satisfied with the correctness of the figures.

(b) Summary tables

6. 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 milk fat, cheeses and skimmed milk powder and whole milk powder and issued, respectively, in documents DPC/PTL/W/66, DPC/PTL/W/67 and DPC/PTL/W/68. The Committees were informed that these figures would be further updated as soon as more recent information was available.

(c) Other information

7. The Committees took note of the information which the secretariat had compiled on production, trade, stocks and consumption of dairy products in the United States, providing data related to the third quarter of 1991 and also some forecasts for the fourth quarter of 1991 and the whole of 1991.

Transactions other than normal commercial transactions

8. Participants exchanged information on transactions other than normal commercial transactions. The Committees noted that the European Communities intended to provide 49,000 tons of whole milk powder as food aid to the USSR.

Sales under derogation

9. 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 said Decision. Details in respect of quantities, prices and delivery dates were provided in a summary

table (DPC/PTL/W/43). In June, Australia and Finland had advised the Committee that the quantities of butter contracted within the terms of the Decision had already been shipped.

10. The representative of the EC explained that mainly due to payment difficulties experienced by the USSR, the fulfilment of the contract for the supply of 200,000 tons had continued to pose difficult problems and shipments had been delayed. It would thus not be possible to deliver the quantities initially contracted. Total deliveries by the end of December 1991 would only be 136,500 tons. The average price was ECU 60 per 100 kgs.

11. The representative of New Zealand recalled that deliveries under the contract for the supply of 100,000 tons of butter to the USSR had been delayed due to payment difficulties experienced by the USSR. These problems had been partially resolved and total deliveries by the end of December 1991 would only be around 67,000 tons. Further details regarding this sale under derogation and the final figure regarding total deliveries would be notified soon.

12. The Committee of the Protocol Regarding Certain Cheeses took note of preliminary information furnished by Australia regarding its exports 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 Committee also noted the summary table regarding sales made in accordance with that provision (DPC/PTL/W/20/Rev.1).

13. The Committee of the Protocol Regarding Certain Milk Powders took note of the notifications by Poland (DPC/PTL/W/63, 64, 65 and 69) regarding intended sales of 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 1,892 tons of skimmed milk powder to Japan. The Committee also noted the summary table regarding sales made in

accordance with that provision (DPC/PTL/W/40/Rev.3). This document would be further revised in order to take account of the more recent sales notified by Poland.

14. The Committees took note of the comments and statements made concerning sales under derogation.

Review of the market situation

Argentina

15. During the second half of 1991, the Argentine dairy market was in the opposite situation to that of earlier years. The market was characterized by a decline in exports and a rise in domestic consumption, together with a growth of imports. All these changes were the result of a new economic policy - Stabilization Plan - applied as from April 1991. In addition, production declined in comparison with the previous year owing to adverse climatic factors. The prospects for 1992 pointed to a return to the traditional trend of exports as in 1989 and 1990. Imports during the first nine months of 1991 amounted to US$40,780,000, the principal product being butter, at 6,772 tons. By contrast, in the whole of 1990, the value of imports of dairy products totalled US$878,000.

16. In the period January-August 1991, exports of butter totalled 2,945 tonnes, of which 2,020 tons went to Algeria, 579 tonnes to Brazil and 340 tonnes to Chile. Prices ranged from US$1,653 per tonne in January to US$1,484 in May and US$1,500 in July. In the period January-September 1991 some 6,800 tonnes of butter were imported at a value of US$10 million. Prices were US$1,614 per tonne in September and the yearly average (January-September) amounted to US$1,490 per tonne.

17. Imports of whole milk powder amounted to 8,504 tonnes in the first three quarters of 1991 while imports of skimmed milk powder totalled 8,273 tonnes. These imports of milk powders represented a value of US$26,861,000 for an average value of US$1,600 per tonne. In the period January to

August 1991, total exports of milk powders amounted to 16,300 tons for a total value of US$24,909,000 and an average value of US$1,530 per tonne. Out of this total quantity, 7,781 tonnes were whole milk powder and the remaining 8,516 tonnes were skimmed milk powder. Compared to January-August 1990, exports of milk powders dropped by 63 per cent by volume and 55 per cent by value in US dollars. Export markets for milk powders were Brazil, Algeria, Chile and Peru.

18. Exports of cheese in January-August 1991 totalled 6,326 tonnes for a value of US$18,068,000; destinations were Brazil and the United States. Values per tonne for each variety of cheese were: hard US$3,000; semi-hard US$2,270; soft US$2,780 and processed cheese US$4,070. Imports for the period January to September 1991 totalled 1,239 tonnes for a value of US$3,468,000. In contrast, during 1990, imports amounted to only 23 tonnes for a value of US$56,000.

Australia

19. In 1990/91 Australian milk production totalled 6,401 million litres. Despite continuing dry conditions in some States, production for the September 1991 quarter was in line with 1990 levels and preliminary indications were that the 1991/92 production forecast of 6,300 million litres would be reached. Sales of drinking milk in the September quarter were 452 million litres, which was 4 per cent above the corresponding 1990 period. This rise in consumption was largely a result of the hot, dry weather in a number of the milk producing States. The trend towards consumption of low fat and fat reduced milk continued.

20. The production of butter and butter oil in the September quarter was respectively 13 per cent and 22 per cent lower than the corresponding 1990 period. 1991/92 production was forecast to be 111,000 tonnes which was slightly below the 1990/91 level. Export sales of butter and butter oil, mainly to Asia, increased significantly in the first nine months of 1991 with butter sales up 60 per cent compared to the same 1990 period. As a

result, local stocks had fallen sharply to less than 8,000 tonnes, which was well below normal commercial holdings for this time of year. Domestic sales of butter and butter oil were static throughout the September quarter. International prices of butter and butter oil were at US$1,500 and US$1,750 per ton f.o.b. respectively.

21. Skimmed milk powder and buttermilk powder (SMP and BMP) production fell by 18 per cent and 7 per cent, respectively, in comparison to the September 1990 quarter. National production for 1991/92 was now forecast to fall by 3 per cent from 1990/91 levels to 151,000 tonnes. While aggregate export sales for the first nine months of 1991 were 30 per cent above 1990 shipments, export sales of SMP in the September quarter were down 20 per cent. Current commercial stocks were 17,200 tonnes which was well below normal levels for this time of year. While production of WMP increased by 16 per cent in the September quarter, the overall production for 1991/92 was forecast to be slightly less than the 1990/91 total of 59,700 tonnes. Export sales of WMP increased by 55 per cent in the September quarter and overall export sales for the first nine months of 1991 were 15 per cent above 1990 levels. This increase could be attributed to increased demand from buyers in the major Asian markets and the diversion of EC product to Eastern European markets. Export sales of WMP were expected to be similar to the 1990/91 figure of 44,000 tonnes. International prices of skimmed milk powder ranged between US$1,650 and US$1,700 per ton f.o.b. while whole milk powder prices were quoted at US$1,700 per ton f.o.b.

22. Production trends for cheese varied for the major varietal cheese categories, however, overall the production for the September 1991 quarter was 2.5 per cent above the corresponding 1990 period. Export sales for September were up 10 per cent on 1990 figures, reflecting strong demand from the Japanese and Saudi Arabian buyers, with the overall sales for the first three quarters of 1991 up 25 per cent on 1990. Domestic demand for September was up 2 per cent on 1990. The strength of export demand and domestic consumption had held down local stock levels and no significant increases were expected in the coming months. International market prices of Cheddar cheese were around US$1,750 per ton f.o.b.

Japan

23. With regard to the general dairy market situation, there was a clear upturn in milk production after last summer's drop. During the period July to September 1991, production was slightly higher than the same period in the previous year, by about 0.7 per cent. It was estimated that production for financial year 1991 (April 1991-March 1992) would exceed the quantity obtained last year (8,203,000 tonnes). Demand for fresh drinking milk fell by 1.2 per cent in the period July to September 1991, compared with the same period of the previous year, owing to the high consumption level achieved during the earlier period. Consequently, since August 1991, the quantity of milk destined for the production of dairy products such as butter and skimmed milk powder was higher than for the same period of the previous year. As far as imports by the Livestock Industry Promotion Corporation (LIPC) were concerned, the importation of 11,000 tonnes of butter and 20,000 tonnes of skimmed milk powder announced in September had been completed in November. Sales by the LIPC would be completed by the end of this year. In summary, the scarcity that had existed until last summer was being overcome by the rise in domestic production and imports by the LIPC. Dairy product prices were now relatively stable or falling slightly.

24. Imports of skimmed milk powder during the third quarter of 1991 were in the order of 27,000 tonnes, a rise of 35 per cent compared to the third quarter of 1990. Import prices of skimmed milk powder for human consumption were relatively stable or slightly down compared with that of the second quarter. That of skimmed milk powder for animal feed was continuing to follow a rising trend.

25. Imports of butter between July and September 1991 also increased substantially, and for the same reason as imports of skimmed milk powder, compared with the same period of the previous year. Import prices appeared to be stabilizing in comparison with the second quarter.

26. Cheese imports were rising steadily, with an increase of 15.3 per cent over the period January to September 1991, compared with the same period in the previous year. This increase was primarily accounted for by natural cheese intended for the manufacture of processed cheese. Import prices were slightly down compared with the second quarter.

New Zealand

27. New Zealand was now at the half-way point of the 1991/92 dairy production season, the results of which had so far been mixed. The season started very well with favourable farm conditions in the late winter and early spring coupled with a tightly concentrated calving resulting in the early season milk flow being above year earlier levels. From September onwards, however, conditions had been much less favourable with cooler temperatures than normal experienced in all of the major dairying regions accompanied by above average rainfall and low levels of sunshine. As a result, although pasture supplies had been relatively abundant, quality had been poor. This was reflected in a fall off in milk supplies through October and much of November with peak production in most areas (late October and early November) significantly below last season's levels.

28. Total production for the season was still forecast to be about the same as last year but would depend on weather conditions between mid-December and mid-February. As things now stood, with lower than normal hay and silage production on many farms because of the poor weather to date, herds were likely to be dried off earlier this season to conserve autumn pasture for winter feed.

29. The more cautious expectations about milk production had not yet been reflected in the expected production levels of the major dairy products. In line with the trends of recent seasons, and industry goals to reduce the proportion of milk used for butter manufacture, there was expected to be some marginal increase in cheese production to around 130,000 tonnes. Further increase in whole milk powder output would depend upon market

opportunities being realized. Butter production (including butter oil as butter equivalent) would likely be down by between 5 and 10 per cent to around 250,000 tonnes. Skimmed milk powder production was expected to drop below 140,000 tonnes and casein output would also be lower.

30. The New Zealand Dairy Board's (NZDB) export supply position was comfortable to tight for all products. It was especially tight for skimmed milk powder where lower production would restrict sales opportunities to some non-core customers. In the case of butter, the movement of stocks from last season to meet commitments to the USSR, which had also absorbed some early season's supply from the 1991/92 season, had been the main factor in keeping the butter supply position in balance. For other products, stocks and new season's production were being carefully managed to maintain an even flow of product to customers.

31. In October 1991, the advance price for manufacturing milk which the NZDB set for the purpose of establishing export purchase prices for major dairy products had been increased from $3.70/kg. milk fat to $4.10/kg. milk fat. This was the result of two main factors. First, the improvement which had occurred in international market prices for major dairy products since the beginning of this season, especially for milk powder. Second, a depreciation which had occurred in the value of the New Zealand dollar since the beginning of the season. This had the effect of increasing, in New Zealand dollar terms, the level of earnings from exports. The October adjustment was the outcome of a regular price review. There would be a further review in February before the final price for the season was set in May. Though higher than the last season, the current milk price remained well below that of earlier seasons and, in real terms, was still at one of the lowest levels on record.

32. Further consideration had been given to the future of the Milk Act of 1988, the legislation which regulated the liquid milk market in New Zealand for the purpose of maintaining the home (door step) delivery system. A

public discussion paper on the liquid milk market had been published by the Commerce Commission in late September. At about the same time, the government announced that it did not intend to make any proposals to extend the provisions of the Milk Act after its scheduled expiry under a sunset provision in March 1993. Assuming the legislation was allowed to expire, and there was still some public debate on the wisdom of this, then the liquid milk market in New Zealand would become totally deregulated (apart from requirements relating to quality standards).

33. Amendments to proposed legislation (first introduced in 1990) had been introduced into the House of Representatives on 29 October to change certain provisions in the Dairy Board Act. These changes related primarily to the constitution of the Board, the legal ownership of the Board's assets and certain other matters. The legislation was not expected to be finalized and passed until early next year. A full report could then be provided to the International Dairy Products Council meeting in March.

34. There had been a generally favourable trend in international dairy market prices since the last meeting of the Protocol Committees in September. There had been two main causes of this modest price recovery:

(i) the improved balance of the dairy market inside the European Community and the lift in prices which had occurred as a result. This had been most pronounced with the market balancing products, butter and skimmed milk powder. The effects had been diluted for other products with, for example, no significant price movement at all for cheese. The improved prices in the Community had been reflected in higher export offer prices out of Europe, allowing for a general lift in international market price levels;

(ii) this market-based lift had been further boosted by the weakening in the value of the US dollar against major Community currencies over the last three months. This had the effect of lifting European prices when expressed in US dollars.

35. The market situation had also been helped by no more than level, and in some cases substantially lower, export availability from other market suppliers. Production of milk in Australia was no greater than last year and perhaps slightly lower. All of the dairy companies there were currently short of product because of commitments made earlier in the season. In the United States, supplies of fresh dairy products had for the most part been very tight with prices well above the market support levels. In Canada, milk supplies were being reduced because of a cut in the quota applying to manufacturing milk production. European suppliers outside the EC had generally had lower export availability in the second half of 1991. This was especially the case with Poland where economic restructuring had resulted in sharply lower milk output. There had been no major changes as far as international demand conditions were concerned.

36. Currently, international market prices were in the following ranges:

Butter	US$1,500-US$1,600 per tonne
Butter oil	US$1,800-US$1,950 per tonne
Skimmed milk powder	US$1,600-US$1,700 per tonne
Whole milk powder	US$1,650-US$1,750 per tonne
Cheese (Cheddar)	US$1,600-US$1,800 per tonne

European Economic Community

37. The Community dairy market had been characterized in the past few months by firm prices for all dairy products. Intervention stocks had been used to stabilize prices, with both butter and skimmed milk powder being sold out of intervention for this purpose. Producer prices had strengthened in recent months but they were still below last year's levels and well below the peak reached in November/December 1989. Consumption of butter was still declining but at a slower rate than in the past two years; consumption of cheese and fresh products were continuing to increase at the rate of almost 3 per cent and 1 per cent, respectively.

38. Export performance varied considerably for the different products but in milk equivalent terms, exports were about the same as in 1990. Imports of cheese were unchanged at 110,000 tons per year; butter imports in 1991 would be slightly above 60,000 tons.

39. Intervention purchases in 1991 to date amounted to about 173,000 tons of butter and 200,000 tons of skimmed milk powder. The quantities of butter and skimmed milk powder stored under private storage aid contracts amounted to about 120,000 tons and 40,000 tons, respectively.

40. The present stock position was 260,000 tons of public stocks of butter and 12,000 tons of private stocks giving a total of 272,000 tons for butter stocks; public stocks of skimmed milk powder were at 435,000 tons while private stocks stood at 16,000 tons giving a total of 451,000 tons of skimmed milk powder; private stocks of cheese were at 170,000 tons.

41. The changes in the deliveries of milk and in the production of the main dairy products during the period January to August 1991 and April to August 1991 were the following as compared to the corresponding periods of 1990:

	January to August 1991	April to August 1991
Milk deliveries	- 1.8 per cent	- 1.5 per cent
Production:		
Butter	- 6.6 per cent	- 7.1 per cent
Skimmed milk powder	- 9.6 per cent	- 12.7 per cent
Other milk powders	+ 17.8 per cent	+ 19.8 per cent
Cheese	+ 1.7 per cent	+ 2.1 per cent
Former German Democratic Republic:		
Milk deliveries	- 31.0 per cent	- 32.0 per cent
Butter production	- 46.0 per cent	- 52.0 per cent
Skimmed milk powder production	- 18.0 per cent	- 20.0 per cent
Cheese production	- 72.0 per cent	- 68.0 per cent

As indicated in the September meeting, the decrease in butter and skimmed milk powder production was accelerating while cheese and whole milk powder production continued to increase at a higher rate during the third quarter of 1991.

42. With regard to consumption, the most recent estimates indicated that butter consumption would fall by 3 per cent in 1991 compared to 1990. However, the 24 per cent increase (or 60,000 tons) in the use of butter in the manufacture of pastry products and ice-cream industry might help to reduce that decrease further. The total quantity of butter taken up by these two outlets in 1991 up to October was almost 300,000 tons.

43. Cheese consumption was about 2.7 per cent up on 1990, with fresh dairy products up by about 1 per cent. However, the consumption of drinking milk was static.

44. The use of skimmed milk powder for animal feed was still well up on 1990 due to the lower internal prices throughout the year. However, as skimmed milk powder prices firmed, the uptake for animal feed increased at a slower rate. Skimmed milk powder use for animal feed was expected to increase by 12 per cent in 1991; the use of skimmed milk for animal feed would increase by 23 per cent while the uptake for casein manufacture would decrease by 3 per cent in 1991 compared to 1990.

45. Exports of the main dairy products in the nine first months of 1991 with changes in relation to the corresponding period of 1990 were the following:

	Quantity (metric tons)	Percentage change
Fresh products	204,000	+ 13.6
Condensed milk	225,000	- 11.6
Skimmed milk powder	128,000	- 36.0
Whole milk powder	465,000	+ 19.0
Butter total	143,000	+ 62.0
of which:		
to USSR	74,000	+164.0
other destinations	69,000	+ 15.0

	Quantity (metric tons)	Percentage change
Butter oil	73,000	+ 11.0
Cheese	325,000	+ 2.3
Whey powder	23,000	- 20.0
Casein and caseinates	31,000	- 17.0

46. Butter prices in member States had been very firm in the past months. They had peaked at 105 per cent of the intervention price but had subsequently fallen from that peak and were expected to fall further in the coming months. Intervention buying was suspended in most member States. The average butter price in the Community was about 95 per cent of the intervention price. Butter had been sold from intervention at the intervention price plus ECU 1. Skimmed milk powder prices were now at about 8 to 9 per cent above the intervention price but they had been as high as 113 per cent of the intervention price in recent weeks. Almost 80,000 tons of skimmed milk powder had been sold from intervention at ECU 1 above the intervention price.

47. The weakening of the United States dollar and the strong internal prices had pushed the Community's calculated f.o.b. offer prices up and made selling by EC operators on the world market difficult. The present range of calculated export prices on an f.o.b. basis were as below:

between US$1,700 and US$1,800 per ton for skimmed milk powder;
between US$1,700 and US$1,800 per ton for whole milk powder;
between US$1,750 and US$1,850 per ton for butter;
between US$2,150 and US$2,250 per ton for butter oil;
between US$1,950 and US$2,050 per ton for Cheddar cheese.

48. With regard to the general situation of the market, the EC was not as optimistic as New Zealand. Stocks held by the EC and the United States were still high and prices of the main dairy products were declining both in the EC and the United States.

Poland

49. Milk production in Poland continued to decrease in 1990 and 1991, however, the downward trend seemed to be halted at the level of 1 million hectolitres per month in the second half of 1991. This reflected the prolonged crisis situation in the milk industry due to demand constraints and difficulties in financing. The demand constraint was particularly visible in the supply of milk where the cumulative figure for the first nine months of 1991 was equivalent to approximately 50 per cent of total supply for 1990. Taking into account this evolution, it might be expected that the supply of milk in 1991 would decline by 30 per cent compared to 1990. The difficulties in financing of industry in turn were mirrored in procurement of milk. The trend here was also downward because of the insufficient level of cash and credit in co-operatives which were responsible for procurement of milk. The corresponding monthly procurement data for 1991 in relation to 1990 were in general 25 per cent lower.

50. Consumption of milk in 1991 seemed to be stabilized as compared to 1990. It had remained unchanged for employees' households while it had decreased in farmers' and retired persons' households. Per capita consumption of milk remained at a comparatively low level. The differences in consumption pattern might be explained partly by different habits and partly by economic factors, especially by the amount of disposable income and structure of expenditures. As per capita consumption was at a very low level, a certain increase might be envisaged. This indeed was already happening as the recent monthly data suggested.

51. Current milk prices on the domestic market were generally higher than those of 1990 (by approximately 50 to 60 per cent). The level of prices reflected mostly an increase in costs of production and partly responded to the low level of consumption. The further growth of production costs induced by the increase of input prices might exert a negative impact on the industry. The only solution for this problem would be a painful process of restructuring of the milk industry supported by appropriate governmental policy.

52. With regard to foreign trade, there were indications of increases both in imports and exports of dairy products. Trade was mostly conducted by private entrepreneurs and there was not sufficient available data for an expanded analysis, however, exports of low-fat milk registered a 33 per cent increase in 1991.

53. Export prices on all products covered by the Protocols continued to be controlled by means of export licensing. With the exception of sales of skimmed milk powder for animal feed to Japan, which were notified to the Committee, other export sales of dairy products were made in conformity with the price provisions of the Protocols and minimum export prices were respected.

Romania

54. The representative of Romania furnished information on domestic policies and trade measures. Romanian agriculture was undergoing major changes during the transition period to a market economy. The Government of Romania had set up a new legal frame for developing private property. By the adoption and application of Law No. 18/1991 on land ownership, the former owners or their inheritors, as well as other citizens, were entitled to possess land. Under this Law, about 80 per cent of the agricultural land would become private property. The Law on land ownership and Law No. 36/6 May 1991 on agricultural companies and other association forms in agriculture, granted the right to private owners to freely associate with a view to setting up agricultural production and trading companies. Also, the improvement of legal measures was evident in the recent drafts of an Agricultural Credit Law and Land Leasing Law, which had already been submitted to the Parliament. The State encouraged and supported the landowners through a complex system of assistance, including observance of agricultural association forms, improvement of the acquisition prices régime, introduction of chemical procedures for agricultural output improvement, protection of animals, phytosanitary assistance, accounting assistance and computer financial administration, and development of rural trade. In 1991, the revenues of private owners increased as well as sales

on the free market, while the quantities of goods sold to the State diminished.

55. Significant changes took place in the production, consumption and internal prices of dairy products. The average yield per cow was estimated at 2,350 litres in 1991 as against 2,132 litres in 1990. Total milk production would reach 55 million hl. in 1991, an increase by 1 per cent over 1990. In the third quarter of 1991, production of butter increased by 1.1 per cent while output of cheese decreased by 33.2 per cent compared to the second quarter of 1991. The contracting and acquisition prices guaranteed by the State for milk for consumption increased from 16 lei/kg. during the third quarter to 25 lei/kg. as of 1 December 1991, while the retail price remained unchanged, i.e. 11 lei/kg., the difference being covered by the State. With a view to ensure the consumers' social protection, fresh milk, milk powders and butter would be further subsidized by the State. Private animal breeders who contracted and delivered animals and animal products could receive, against payment at retail price, 0.300 kg. husk for each litre of cow's milk or buffalo's milk containing 3.5 per cent fat, delivered on the basis of a contract. The average retail prices on free markets for the third quarter of 1991 were of 18.58 lei/litre for milk and 131.45 lie/kg. for cow's milk feta cheese, representing an increase of 9 per cent and 16 per cent respectively as compared to the second quarter of 1991. These prices were determined on the basis of demand and supply. The per capita consumption of fresh milk was estimated to reach 174 litres in 1991.

56. As regards measures at the frontier, no changes in the level of customs duties had been made for the third and fourth quarters of 1991. However, as of 1 January 1992, Romania would apply a new import customs tariff, based on the Harmonized System on a six-digit level. The great majority of customs duties were between 20 per cent and 25 per cent. The import customs tariff of Romania was available at the GATT secretariat. The import licences régime was liberalized and import licences were being

issued automatically. For balance-of-payments difficulties and for safeguard purposes, surcharges and quotas on imports, according to the relevant GATT provisions, might be introduced. No surcharges and no quantitative restrictions for imports of dairy products had been introduced so far.

South Africa

57. There had been a marked downward trend in milk production in South Africa since the second quarter of 1991. The production figure for September 1991 had been down by almost 10 per cent compared to September 1990. Consumption was also declining, although not at the same rate as production. Consumption for industrial purposes was declining at a faster rate than for fresh milk utilization. This downward trend was expected to continue.

58. Skimmed milk powder production was expected to be at a level of 7,400 tons in the fourth quarter of 1991, a substantial increase from the 3,131 tons produced in the third quarter of 1991. The revised production estimate for 1991 was 20,200 tons, 20 per cent less than the 25,500 tons produced in 1990. Estimated production for the first quarter of 1992 was slightly lower at 6,442 tons. It was estimated that skimmed milk powder consumption would be in the region of 3,600 tons in the fourth quarter of 1991. Overall consumption was still lower than production, resulting in increasing stocks. The stock position was 1,851 tons at the end of September and was expected to be notably higher at 4,700 tons by the end of 1991.

59. Production of whole milk powder dropped further to 2,033 tons in the third quarter of 1991 after the sharp decrease in the previous quarter. It was expected to increase to 2,129 tons in the October-December quarter, resulting in a total estimated production of 9,550 tons for 1991. Consumption had been marginally higher in the third quarter at 2,649 tons and was estimated to decrease slightly to 2,515 tons in the fourth quarter. The total consumption estimate for 1991 was 9,800 tons or 5 per cent down

from 1990. Some 1,736 tons of whole milk powder were in stock at the end of September, while the estimate for the end of the current fourth quarter was 1,520 tons.

60. Butter production increased by 7 per cent to 3,463 tons in the third quarter of 1991 in line with what was expected. The estimated production of 5,000 tons for the fourth quarter represented an increase of 44 per cent compared to the third quarter. It was estimated that total butter production in 1991 would be slightly down from the 20,991 tons produced in 1990. Consumption of butter had been slightly higher than expected in the third quarter of 1991 at 4,159 tons. The consumption estimate for the fourth quarter was 3,955 tons, resulting in an expected consumption figure of 15,369 tons for the whole year of 1991. Stocks had increased slightly to 5,290 tons by the end of the third quarter after reaching a record high of 6,194 tons at the end of the first quarter of 1991. It was expected that this situation would continue.

61. The expected cheese production for the final quarter of 1991 was 11,516 tons, 25 per cent higher than the 9,216 tons produced in the third quarter. The total production estimate for 1991 was 39,097 tons which represented a decrease of some 6 per cent compared to 1990. It was estimated that 10,298 tons of cheese would be produced in the first quarter of 1992. The consumption figure for the third quarter was 9,830 tons, while the estimate for the fourth quarter of 1991 was 10,771 tons. Cheese stocks had reached a level of 8,043 tons at the end of September and would increase slightly to 9,280 tons at the end of December 1991.

Finland

62. In Finland, milk deliveries during the three first quarters of the year 1991 were 9.6 per cent lower than in 1990. In September, deliveries were 11.7 per cent lower, and during October and December 1991, deliveries would be 11 and 12 per cent lower than in 1990, respectively. The reason for this rapid decrease was the milk buy-out scheme implemented in

December 1990/May 1991 covering 215 million litres of milk. In 1991, deliveries were expected to decrease to 2,340 million litres. The outlook for 1992 was for a further decline in milk deliveries to 2,330 million litres.

63. Total butter production in January-September 1991 was 3.9 per cent lower than during the corresponding period of 1990. The estimate for the whole year 1991 was 58,000 tons (- 6.4 per cent). Butter consumption in January-September increased by 14.6 per cent. The estimate for the whole year was 37,00 tons (+ 9.5 per cent). Finland had exported under derogation some 7,000 tons of butter to the USSR in January-June 1991. Butter stocks in October were about 7,100 tons. It was estimated that exports would reach 20,500 tons in 1991. It was forecast that in 1992 production would amount to 58,000 tons with consumption reaching 37,000 tons and an over-supply of 21,000 tons.

64. Cheese production in January-September was 64,400 tons (- 9.5 per cent). The estimate for the whole year was 84,000 tons. Consumption was increasing (+ 3 per cent) and was estimated to be 68,000 tons. Exports in January-September were 20,000 tons (- 3.1 per cent) and the estimated exports for the year 1991 were 27,000 tons. Stocks in September were at 15,900 tons. For 1992, the forecasts were: production 84,000 tons, consumption 70,000 tons and over-supply of 22,000 tons.

65. Skimmed milk powder production in January-September was 16,700 tons (- 10.7 per cent). Exports in January-September were 4,000 tons and stocks in September were at 14,700 tons. The total production for 1991 was estimated to be 20,000 tons, consumption reaching 15,000 tons and exports 6,500 tons. In 1992, forecasted production was 20,000 tons, consumption 18,000 tons and an over-supply of 2,000 tons.

66. Production of whole milk powder was 7,800 tons (- 59 per cent) in January-September 1991, and 7,900 tons were exported in that period. Estimated production in 1991 was 8,000 tons, with consumption reaching 700 tons and exports 10,000 tons. Stocks in September were at 2,500 tons.

Estimates for 1992 were: production 5,000 tons, consumption 500 tons and an over-supply of 5,000 tons.

Norway

67. During the first nine months of 1991, milk deliveries were 3 per cent lower than in the same period of 1990. Milk deliveries were expected to decline in 1992 as well, due to a tightening of the milk quota system.

68. In the period January to September 1991, butter production dropped approximately by 9 per cent compared to the first three quarters of 1990. This was partially a result of the decline in milk deliveries as well as increased butter oil production. This lower butter production level was expected to continue throughout 1991. Consumption of butter was however increasing slightly. Sales of butter to ordinary household customers had risen by 3 per cent compared to 1990, while industrial consumption had declined somewhat. Norway had exported 5,929 tons of butter during the first three quarters of 1991. This was 20 per cent less than the same period of 1990. Total exports for 1991 were expected to be about 10 to 15 per cent lower than for 1990. As usual, Norway had no butter imports, nor were any expected.

69. Norwegian cheese production had for the first three quarters of 1991 been slightly lower than for the corresponding period of 1990. This was due to lower milk production. However consumption had increased somewhat in that period. Cheese imports had increased by about 5 per cent compared to the corresponding period of 1990, although, by year's end they were expected to be only slightly above last year's level. Total exports should be around 23,000 tons in 1991, which was slightly lower than previous years.

70. The market situation for skimmed milk powder was normal. There had been no substantial exports of skimmed milk powder nor had there been any imports.

Sweden

71. The general dairy situation in December 1991 was still characterized by insufficient supply of milk deliveries compared to the demand for liquid milk. Despite the abolishment of consumer subsidies for liquid milk, there had only been a marginal decrease in the actual consumption of liquid milk during 1991. As a consequence, Swedish dairies had reduced their production of dairy products such as butter and cheese in favour of liquid milk for direct consumption.

72. Butter production in the third quarter of 1991 amounted to 5,600 tons, a decrease of 35 per cent compared to the corresponding quarter of 1990. Stocks of butter on 1 July 1991 amounted to only 1,000 tons. Average export price, in early December 1991, was reckoned at US$1,500 per ton f.o.b.

73. Cheese production in the third quarter of 1991 amounted to 26,500 tons, a decrease of 5 per cent compared to the corresponding quarter of 1990. No figures were yet available concerning foreign trade during the third quarter but the forecast was that imports of cheese were likely to increase in 1991. Production and exports of cheese were both expected to reach significantly lower levels in 1991 compared to the previous year.

74. Production of skimmed milk powder decreased by as much as 60 per cent in the third quarter of 1991 compared to the corresponding quarter of 1990. Total domestic consumption remained almost unchanged during this period. After having increased substantially in the second quarter of 1991, exports were almost nil in the third quarter, the reason being the abolishment of export subsidies as from 1 July 1991. Together with the decline in production, stocks at the end of September 1991 were at historically low levels. It was forecast that Sweden will not export any significant quantities of skimmed milk powder in 1992.

Switzerland

75. In Switzerland, milk deliveries in the first ten months of 1991 totalled 2.597 million tons compared to 2.524 million tons in the corresponding period of 1990, an increase of 2.8 per cent.

76. Butter production increased by 6.8 per cent from 7,400 tons to 7,900 tons during the third quarter of 1991. During that period imports declined to only 60 tons as compared to 900 tons in the third quarter of 1990. Butter consumption increased by 5.9 per cent from 8,400 tons to 8,900 tons during the third quarter of 1991. Stocks of butter on 30 September 1991, at 8,000 tons, were considered to be at normal levels. It was forecast that production would remain stable in the fourth quarter of 1991 and that further imports might be effected towards the end of the year.

77. Cheese production registered an increase of 0.3 per cent in the third quarter of 1991 totalling 35,700 tons. In that period, imports increased by 7.8 per cent to 14,300 tons. During the third quarter of 1991, consumption decreased by 17 per cent to 22,600 tons. Stocks at 28,000 tons on 30 September 1991 were considered to be normal. Export and import prices remained high in the third quarter of 1991, averaging, respectively, US$6,400 and US$5,700 per ton.

78. Skimmed milk powder production increased by 3.9 per cent to 10,700 tons during the third quarter of 1991. In that period, consumption registered a decrease while stocks on 30 September 1991, at 10,700 tons were 38.7 per cent higher than a year earlier. This situation had led the Swiss authorities to adopt certain measures which had been explained to the Committee in September (DPC/PTL/21, paragraph 34).

Canada

79. Regarding price developments, the observer from Canada said that effective 1 August 1991, the target return had been raised by 2.5 per cent to Can$49.92 per hl. of milk. Effective in the 1991/92 dairy year, the

Market Sharing Quota had been reduced by 4.7 per cent following a decrease in the estimated domestic requirements for butterfat and increased low-fat fluid milk sales. Industrial milk production was expected to decline by 4 to 5 per cent in the 1991/92 dairy year.

80. Butter production was expected to decrease by 4 per cent to 93,000 tons in 1991/92 while skimmed milk powder output might decline by 7 per cent to 75,000 tons. However, total cheese production was forecast to increase in 1991/92, with Cheddar cheese output up an estimated 2 per cent to 115,000 tons and other cheeses up by 4 per cent to 146,000 tons, compared to the previous dairy year.

Economic Commission for Europe

81. The observer from the Economic Commission for Europe informed the Committees that, in the USSR, milk output could drop by about 10 per cent in 1991 and milk procurement by the State processing industry might decline by about 13 per cent compared to 1990. This indicated that an increasing proportion of milk production was being held back by the farmers rather than sold to the central fund. Purchase contracts for milk concluded for 1991 had been fulfilled only by about 77 per cent. The shrinking supply of milk resulted in a drop of butter, cheese and milk powder production. Butter output declined by 13 per cent, cheese manufacture by 17 per cent and powder production by 10 per cent. Butter imports increased by 21 per cent in 1991 to 298,900 tons; cheese imports increased by 43 per cent to 16,600 ton; while imports of milk powders declined by 6 per cent to 76,800 tons. In 1990, the USSR exported 8,700 tons of butter and 4,100 tons of cheese.

82. The Committees took note of the information provided and of comments made under this item.

Review of the level of minimum prices under Article 3:3(b)

83. The Committees reviewed the level of minimum prices of products covered by the respective Protocols. An earlier proposal to increase the

minimum prices for milk powders was maintained. However, other participants felt that the market situation did not presently warrant a change of the minimum prices and that more time was needed to reflect on the proposed changes. The present price levels were consequently unchanged.

84. The Committees took note of the comments made regarding the levels of the minimum export prices and agreed to revert to this matter at the next regular meetings of the Committees.

Relationship between minimum export prices fixed for pilot products

85. The Committees had a preliminary discussion on the relationship between minimum export prices fixed for pilot products. Participants wanted to reflect further on the matter and it was agreed to revert to it at the next regular meetings. In order to facilitate the consideration of the matter at the next regular meetings, participants were invited to furnish background notes in this connection well before the March meetings.

86. The representative of Australia furnished a background note which was subsequently distributed as document DPC/PTL/W/70.

Adoption of report to the Council

87. 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/22.

Date of next meetings

88. The next regular sessions of the Committees will be held consecutively on 16 and 17 March 1992, subject to confirmation by the secretariat.