

GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

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International Dairy Arrangement

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

Draft Report of the Fiftieth Session

15 June 1992

Introduction

1. The three Protocol Committees held a joint session on 15 June 1992, 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-ninth session

B. Information required by the Committees:

(i) Replies to questionnaires:

Questionnaire 3: Certain cheeses

Questionnaire 1: Certain milk powders

Questionnaire 2: Milk fat

(ii) Summary tables

(iii) Other information

C. Transactions other than normal commercial transactions

D. Sales under derogation

- E. Review of the market situation
- F. Adoption of report to the Council
- G. Other business
- H. Date of the next meetings

Adoption of report on the forty-ninth session

3. The report of the forty-ninth session was adopted, as amended, and distributed in document DPC/PTL/24. The Committees welcomed the participation of new observers and expressed the hope that they would participate more actively in the future.

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 1992 to do so without further delay. Participants were also requested to provide all the relevant information concerning the second quarter of 1992 by 11 September 1992, 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 milk fat (DPC/PTL/W/75), cheeses (DPC/PTL/W/76), skimmed milk powder and whole milk powder (DPC/PTL/W/77). 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 data which the Secretariat had compiled on production, trade, stocks and consumption of dairy products in the United States for the first quarter of 1992 and some forecasts for the second quarter of 1992.

Transactions other than normal commercial transactions

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

Sales under derogation

8. The Committee of the Protocol Regarding Certain Cheeses took note of the communications by Australia and New Zealand regarding exports of low-quality cheese under Article 7:2 of the Protocol (respectively DPC/PTL/W/25/Add.2 and DPC/PTL/W/74). The Committee also noted the summary table regarding sales made in accordance with that provision (DPC/PTL/W/20/Rev.3).

9. The representative of New Zealand informed the Committee that as notified in document DPC/PTL/W/74, his country had the intention to have recourse in 1992 to Article 7:2 of the Protocol. Sales of approximately 300 tons of cheese under the terms of that provision, made during January 1992, would shortly be notified to the Committee. The representative of the EC expressed continued concern with regard to the use of this derogation by New Zealand and in particular with the observance of the notification obligations by said participant. He stressed the need for advance notification of sales under derogation as provided by Article 7:2 of the Protocol in order to avoid that such cheeses be used for table consumption.

10. The Committee of the Protocol Regarding Certain Milk Powders took note of the summary table regarding sales made in accordance with Article 3:5 of the Protocol (DPC/PTL/W/40/Rev.4).

11. 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 1991, Australia and Finland had advised the Committee that the quantities of butter contracted within the terms of the Decision had already been shipped.

12. The representative of New Zealand recalled that it had not been possible to fulfil the contract for 100,000 tons of butter to the USSR due to payment difficulties experienced by the USSR. The final figure for shipments of butter to the former USSR had only been 71,015 tons as notified to the Committee (DPC/PTL/W/30/Add.1).

13. The representative of the EC explained that also due primarily to payment difficulties experienced by the USSR, it had not been possible for the EC to deliver the 200,000 tons initially contracted, and total deliveries by the end of December 1991 had only been 95,535 tons.

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

Review of the market situation

15. Participants gave the following reports on the market situation of their respective countries.

Romania

16. Recent trends in the Romanian dairy sector should be analyzed against the background of the process of reform and transition to a market economy in which Romania had been firmly engaged since 1990, and the country's general economic situation. The reform process had resulted in radical changes in every area of economic life: the old structures and mechanisms of a centralized economy had been abolished and new laws and regulations

aimed at introducing free-market policies, structures and mechanisms had been adopted and implemented. At the same time there had been sharp declines in every sector of the economy. In April 1992, unemployment amounted to 4.4 per cent of the working population and was likely to increase. In 1991, the balance-of-payments deficit was US\$1.3 billion. Thus, the reform process was facing difficulties due to economic imbalances inherited from the former system, the fact that Romania was a developing country, the collapse of trade with the former COMECON countries, the shortage and irregular flow of hard-currency resources and the unfavourable world economic climate. Despite these difficulties, the reform policy was being vigorously pursued by developing the private sector, liberalizing prices and trade, regulating the labour market, freeing salaries while improving the welfare system and changing the financial, fiscal and monetary systems.

17. With respect to the dairy situation, at the end of 1991 there were 4.3 million bovine animals, which represented a massive fall of 1 million as compared with the previous year. There were 2.6 million head of dairy cows and heifers. On 1 January 1992, the private sector owned 83 per cent of the bovine herd. The fall in milk and dairy product production recorded in 1991 continued during the first four months of 1992. During that period, and in comparison with the corresponding period of 1991, production of milk for direct consumption dropped by 12.3 per cent to 1.28 million hl.; that of fresh dairy products dropped by as much as 62 per cent to 410 thousand hl.; butter production decreased by 3 per cent to 7,300 tonnes and production of cheese dropped by 30 per cent to 12,900 tonnes. In the first quarter of 1992, only 2,000 tonnes of powdered milk and 7,500 tonnes of butter were imported and an insignificant amount of cheese exported.

18. Romania had been applying a new customs import tariff based on the Harmonized System since 1 January 1992. Customs duties on dairy products ranged from 20 to 25 per cent. Because of the shortages on the domestic market, temporary duty-rate reductions had been introduced; the reduced levels were between 0 and 10 per cent. Exports and imports had been liberalized and were no longer subject to automatic licensing. An

exception was made in the case of controlled products, for which licences were still required. At present, there were no restrictions on imports of dairy products. The exportation of milk for consumption, powdered milk and butter was prohibited. As from 1 May 1992, production subsidies for dairy products had been reduced by 25 per cent. A further 25 per cent reduction would be made on 1 September 1992, and the remaining 50 per cent would be eliminated in 1993.

South Africa

19. The production of fresh milk had been decreasing on a continual basis since April 1991 and it was expected that this would lead to a shortage in the supply of milk. The decrease in the current production of milk could be attributed to unfavourable weather conditions, the reduced producer price of milk and the resulting decrease in the number of milk producers. Actual production of milk for the year ended 29 February 1992 had amounted to 1,992 million litres, while consumption had been 1,879 million litres. The expected production and consumption for the current year was 1,926 million litres and 1,860 million litres, respectively. The market for full cream milk was starting to diminish at the cost of long life, low fat and skimmed milk. It was projected that the share of long life milk would grow from the current 20 per cent to 50 per cent of the total drinking milk market by the year 2000. This trend could, inter alia, be attributed to the fact that more people were starting to be health conscious. The per capita consumption of milk in the white population had reached a saturation point and would probably decline in the future. However, the growth in urban black populations and in their disposable incomes, could lessen the expected decline in total per capita consumption of drinking milk.

20. Cheese consumption was increasing in South Africa with the introduction of new cheese varieties which were gaining popularity over existing varieties such as Cheddar and Gouda. Consumption of Cheddar cheese at 21,080 tons, for example, was 7.12 per cent lower compared to the previous year. The production of Gouda and Cheddar cheese for the previous

year was 19,108 tons and 20,023 tons, respectively, or 6.7 per cent lower than the previous year.

21. A shortage in the supply of butter was expected in the coming year as a result of the decrease in the production of fresh milk. The current butter supply was about a thousand tons more than the 1,400 tons per month needed for local consumption. This was considerably lower than the supply level of 6,200 tons per month of the previous year. The result was that considerably less butter would actually be exported than originally anticipated.

22. Consumption of full cream milk powder decreased from 1,079 tons in March 1991 to 864 tons in February 1992. Consumption of skimmed milk powder varied considerably during the year, but at year end was 468 tons lower in comparison with the previous year. The production of skimmed milk powder also had decreased a considerable 36.25 per cent compared to the previous year. The decrease in the production of full cream milk powder was 15.03 per cent.

23. The total consumption of yogurt in metropolitan areas was about 57 million litres per year, of which drinking yogurt amounted to approximately 23 million litres. Demand for the latter product was growing, mainly as a result of the wide variety of flavours and packaging sizes. Drinking yogurt's consumption per capita had been higher for all population groups in 1990 compared to 1987. The consumption of mesh and buttermilk in metropolitan areas remained constant at about 67 million litres per year.

Finland

24. Milk deliveries during the first quarter of 1992 were 6.12 per cent lower than in 1991. In April and May 1992, deliveries were, respectively, 5.8 per cent and 6.2 per cent lower as compared to the corresponding months of 1991. The reason for the decrease was a temporary decline of average milk yields and a new milk buy-out scheme in the period March to June 1992.

The buy-out scheme totalled 107.5 million litres of milk. In 1992, deliveries were expected to decrease to 2,250 million litres and were forecast to remain unchanged at that level, in 1993.

25. Butter production in January-March 1992 was 7.6 per cent less than during the corresponding period of 1991. The estimate for the whole year of 1992 was 55,000 tons, down by 7.4 per cent. Butter consumption in January-March decreased by 14.1 per cent, after having increased by 41.5 per cent during the same period of 1991. The estimate of consumption for the whole year was 37,000 tons (-4.1 per cent). Finland had exported 3,900 tons of butter in January-March 1992, and the estimate for the year was 18,000 tons. Butter stocks in March were some 6,100 tons. Forecasts for 1993 were for production of 55,000 tons, consumption at 36,000 tons and exports of 20,000 tons. Export prices of butter in the second quarter of 1992 were between US\$1,500 and US\$1,600 per ton f.o.b.

26. Cheese production in January-March 1992 was 21,100 tons, down 0.9 per cent. The estimate for the whole year was 86,000 tons. Consumption was increasing at 5 per cent and was estimated to reach 70,000 tons. Exports in January-March had increased 9.8 per cent to 5,700 tons and estimated exports for the whole year of 1992 were 22,000 tons. Stocks in March were 8,400 tons. The forecasts for 1993 were for production of 86,000 tons, consumption at 70,000 tons and exports of 22,000 tons.

27. Skimmed milk powder production in January-March 1992 declined by 40 per cent to 2,600 tons. Exports in January-March were 800 tons and stocks in March were 9,900 tons. The total production for 1992 was estimated to be 18,000 tons, with consumption of 14,000 tons and exports 4,000 tons. The forecasts for 1993 were for production of 18,000 tons, consumption at 14,000 tons and exports of 4,000 tons. Export prices of skimmed milk powder in the second quarter of 1992 were between US\$1,500 and US\$1,650 per ton f.o.b. Estimated production of whole milk powder for 1992 was of 4,000 tons, with consumption of 500 tons and exports of 4,000 tons. Stocks in March were at 1,000 tons. Estimates for 1993 were for production

of 4,000 tons, consumption at 500 tons and exports of 4,000 tons. Export prices of whole milk powder in the second quarter of 1992 were between US\$1,600 and US\$1,650 per ton f.o.b.

Norway

28. Total milk deliveries in Norway during the first three months of 1992 were 5.5 per cent lower compared to the corresponding period of 1991. Total milk deliveries for the entire year should be around 1,775 million litres, a reduction by about 1.4 per cent compared with 1991. Further reductions in the next years were also expected as the Government had launched a programme for buying back milk production quotas owned by dairy farmers.

29. Butter production decreased by 5 per cent during the first quarter of 1992 compared to the first quarter of 1991. This was partially a result of the decline in milk deliveries as well as increased butteroil production. This lower butter production level was expected to continue throughout 1992. Consumption of butter was at the same level as the previous year. Norway had exported 2,744 tons of butter to date this year, most of it to Switzerland. It was expected that total butter exports would be around 7,500 tons for 1992, the same level as in the previous year. Norway had not imported any butter in the first quarter of 1992, nor were any imports expected. Current export prices of butter were between US\$1,350 and US\$1,450 per ton f.o.b.

30. Cheese production increased during the first quarter of 1992 compared to the corresponding quarter of 1991. However, total production for 1992 should be at about the same level as the previous year. Cheese consumption declined somewhat in early 1992 but was expected to rise later in the year so that total consumption for 1992 would remain stable compared to 1991. Imports rose during the first three months of 1992 but total imports for the year should be unchanged. The main origins of most of the imports were the EC and Sweden. Exports also increased during the first three months of 1992 compared to the corresponding period of 1991. Norway had so far

exported 6,997 tons of cheese, mainly to the EC, Japan and the United States. Total exports should be around 25,000 tons for 1992, a slight increase over the previous year.

31. The milk powder situation was normal. Most of the milk powder was returned to the producers as animal feed. Imports and exports of this product group were negligible. This situation was expected to continue for the remainder of 1992.

Sweden

32. In the first quarter of 1992 milk deliveries to dairies decreased by approximately 7 per cent compared to the corresponding period of 1991. As a consequence, dairies reduced their production of milk powders and butter. For the year 1992, milk deliveries were expected to decrease by 3 to 4 per cent. The decrease in milk deliveries was mainly due to a further decline in dairy cow numbers. The dairy herd was expected to decline by 5 per cent in 1992 compared to the previous year.

33. Production of cheese was fairly stable during the first quarter of 1992 and amounted to 27,400 tons. No figures were yet available concerning foreign trade during the first quarter of 1992, but according to preliminary information, exports had decreased by more than 50 per cent compared to the corresponding period of the previous year. Annual consumption of cheese, which in the early seventies had amounted to 9 kgs. per capita, had now almost doubled to 16 kgs. per capita. Total domestic consumption of cheese in 1991 amounted to 125,100 tons of which 23,100 tons were imported cheeses. Stocks at end of March 1992 were at almost the same level as at the end of March 1991.

34. As a result of the declining milk production, butter production was declining. In the first quarter of 1992, butter production amounted to 9,800 tons, a decrease of 16 per cent compared to the corresponding period of 1991. Total domestic consumption of butter remained rather stable in the first quarter of 1992 compared to the corresponding period of 1991.

Definitive figures were not yet available concerning foreign trade during the first quarter of 1992, but preliminary information indicated a decrease in exports of butter by almost 50 per cent. The average export price of butter in early June 1992 was US\$1,400 per ton f.o.b.

35. Production of skimmed milk powder decreased by almost one third in the first quarter of 1992 to 7,900 tons as compared to 11,600 tons in the first quarter of 1991. Total domestic consumption remained almost unchanged during this period. Exports of skimmed milk powder continued to decrease. Total exports in the first quarter of 1992 amounted to 200 tons compared to 4,200 tons in the corresponding period of 1991. Stocks at end March 1992 amounted to only 2,800 tons compared to 10,800 tons at end of March 1991. The average export price of skimmed milk powder in June 1992 was US\$1,600 per ton.

Switzerland

36. In Switzerland, milk deliveries in the first four months of 1992 were estimated at 1.035 million tons, compared to 1.165 million tons in the corresponding period of 1991, a decrease of 1.3 per cent.

37. Cheese production was stable at 30,400 tons during the first quarter of 1992. Exports increased by 7.2 per cent to 14,800 tons in the first quarter of 1992, while imports decreased by 18.8 per cent to 5,200 tons. Consumption of cheeses registered a substantial decrease (by 25.9 per cent) to 18,600 tons. Stocks of cheese at 27,800 tons on 1 April 1992 were 31.1 per cent higher than on 1 April 1991. Current stocks of Emmental cheese were high while stocks of other cheeses were at normal levels.

38. Skimmed milk powder production remained stable at 7,500 tons during the first quarter of 1992 compared to the first quarter of 1991. Exports in the first quarter had amounted to 2,355 tons and in May a further export sale of approximately 3,000 tons had been effected. Export prices averaged US\$1,500 per ton f.o.b. in the first quarter of 1992 and were around US\$1,600 per ton f.o.b. in May 1992.

39. Butter production increased by 6.2 per cent to 8,500 tons in the first quarter of 1992 while imports mainly from the EC decreased by 11.8 per cent to 1,500 tons. Consumption of butter remained stable in that period while stocks at the end of the first quarter of 1992 at 5,400 tons were slightly higher than a year earlier.

Poland

40. In the first quarter of 1992, purchases of milk declined by 21 per cent in comparison to the first quarter of 1991 and reached the level of 1.4 billion litres. It was expected that purchases of milk for the whole year 1992 would amount to some 7 billion litres. The decline of the purchases of dairy products, especially of butter, was due to the decline of the real income of the population and to the increase of market prices.

41. The output of butter in the first quarter of 1992 reached 29 thousand tons, 26 per cent lower than in the corresponding quarter of 1991. Butter consumption in 1992 was estimated at 4 kgs. per capita. Imports of butter in the first five months of 1992 reached 1,500 tons. The average import price amounted to US\$1,600 per ton f.o.b.

42. The output of skimmed milk powder in the first quarter of 1992 remained unchanged as compared to the corresponding quarter of 1991. Exports of skimmed milk powder and whole milk powder in the first quarter of 1992 amounted, respectively, to 3,400 tons and 2,095 tons. The average export price for skimmed milk powder for human consumption amounted to US\$1,550 per ton f.o.b.

43. The output of cheeses in the first quarter of 1992 reached 23,400 tons, a decrease by 5 per cent compared to the first quarter of 1991. Exports and imports of cheeses in the first quarter of 1992 reached, respectively, 1,772 tons and 6,000 tons.

European Economic Community

44. The market situation in the Community was firm. The Council of Ministers' decisions in March 1992, followed by the price fixing and reform decisions in mid-May 1992, had established a stable framework for producers, processors and traders in which to operate for the 1992/93 marketing year. However, the outcome of the Uruguay Round was still a source of concern to producers and traders.

45. The decisions taken in March 1992, relating to the quotas, extended the system for the 1992/93 year, maintaining the deliveries and direct sales quotas at the same level as in 1991/92. The Community reserve was also maintained at the same level as in 1991/92. The agreement on the 1992/93 price proposals in mid-May 1992 resulted in a rollover of the target price and the intervention prices of 1991/92. The co-responsibility levy and the suspension of inward processing arrangements were both extended for a further year.

46. The details of the reform had not yet been formally approved. However, in principle, there was agreement:

- to extend the quota system for seven years;
- to reduce the quota by 1 per cent in 1993/94 and in 1994/95, taking into account the evolution of the market situation;
- to reduce the intervention price of butter by 2.5 per cent in these same two years while keeping the intervention price of skimmed milk powder, and in consequence the target price for milk, at the same level;
- to provide compensation of ECU 5 per 100 kgs. for ten years for quota reductions;

- to provide an incentive for the total and permanent discontinuation of milk production of ECU 17 per 100 kgs. per year for three years;
- to provide a premium for cessation of ECU 2.5 per 100 kgs. for ten years;
- to provide funds for promoting consumption in the Community and for expanding the markets for milk and milk products.

47. The market situation was firm with intervention purchases playing a very small role and intervention stocks playing a large role. Intervention stocks of butter were being used both on the internal market and for export while stocks of skimmed milk powder were being used substantially on the internal market and possibly on the external market. A very important reduction in the export refund for skimmed milk powder was also possible from 12 June 1992, as the world market for skimmed milk powder had shown some improvement.

48. The changes in the deliveries of milk and in the production of the main dairy products during the first two months of 1992 (as compared to the corresponding period of 1991) and during the period April 1991 to February 1992 (as compared to the period April 1990 to February 1991) were the following:

| | <u>January-February 1992</u> | <u>April 1991-February 1992</u> |
|---------------------|------------------------------|---------------------------------|
| Milk deliveries | + 1.0 per cent | - 2.8 per cent |
| Production | | |
| Butter | - 10.6 per cent | - 13.0 per cent |
| Skimmed milk powder | - 18.6 per cent | - 17.0 per cent |
| Other milk powders | - 8.6 per cent | + 17.6 per cent |
| Cheese | + 4.2 per cent | + 1.8 per cent |

49. The butter market was firm, prices had increased from about 89 per cent of the intervention price in early 1992 to almost 93 per cent of intervention price in June 1992. Production was down substantially and demand was relatively firm. With regard to consumption of butter, the most recent indications from the member States indicated consumption declining at about 2 per cent per year. Intervention purchases of butter to date in 1992 amounted to 28,000 tons, while about 50,000 tons had been sold from intervention mainly for use in the pastry and ice-cream industry. About 135,000 tons of butter had been used by these industries in the period January to April 1992, which was similar to the quantity used in the corresponding period in 1991. Certain quantities had also been sold for export at prices significantly above the agreed minimum export price. Consequently, the fears of certain participants to the Arrangement had been unfounded.

50. The skimmed milk powder market was also very firm. Prices had increased throughout the year to about 113 per cent of the intervention price. Production was down and demand was strong. This demand was helped by internal disposal schemes for liquid skimmed milk and for skimmed milk powder for use in animal feed. Demand from casein manufacturers was also strong. The Community traders' success in the Mexican tender was also having its influence.

51. The cheese market in general was firm, however, some prices were firmer than others. Cheddar prices increased during the year while Gouda prices declined slightly. Production of cheese continued to increase by about 2 per cent per year but consumption was increasing by an even greater amount.

52. The international market for skimmed milk powder was very firm as was demonstrated by a number of tenders in recent months. The international market for whole milk powder and cheese was firm, but for butter and butteroil it was still sluggish.

53. There was still an important stock of butter in the United States (approximately 230,000 tons). The United States Dairy Export Incentive Program was leading to sales of butteroil which depressed butter and butteroil prices in world markets.

54. Milk supplies in the Community, in 1992, were likely to be little different from the previous year and milk production in the United States seemed to be about the same as in 1991. However, if the 1991/92 trends were continued in some other countries and prices to producers continued to increase, the fragile butter market would not improve and the skimmed milk powder market might deteriorate. Current prices of skimmed milk powder might be artificially high and as the available supplies of milk adjusted to the improved skimmed milk powder prices, these prices might ease.

55. The changes in the quantity of exports of the main dairy products during the first two months of 1992 were the following as compared to the corresponding period of 1991:

January-February 92/January-February 1991

Percentage change

| | |
|---------------------|--------|
| Fresh products | + 2.7 |
| Condensed milk | + 37.2 |
| Skimmed milk powder | + 48.0 |
| Whole milk powder | - 12.0 |
| Butter | - 42.0 |
| Butteroil | + 88.0 |
| Cheese | + 23.0 |

56. At present, there were 190,000 tons of public stocks of butter and 114,000 tons of private stocks, giving a total of 304,000 tons for butter stocks. Public stocks of skimmed milk powder were at 180,000 tons. Stocks of cheese stood at 145,000 tons.

57. The present range of calculated export prices on an f.o.b. basis were:

between US\$1,600 and US\$1,800 per ton for skimmed milk powder;

between US\$1,550 and US\$1,750 per ton for whole milk powder;

between US\$1,500 and US\$1,600 per ton for butter;

between US\$1,800 and US\$1,950 per ton for butteroil;

between US\$1,800 and US\$1,950 per ton for Cheddar cheese.

New Zealand

58. New Zealand was under the influence of "El Niño" climatic changes in 1991 and early 1992. Rainfall was higher than average in western areas and lower than average in the East. This resulted in exceptionally favourable weather for dairy farming in the main milk producing districts in the North Island. There was adequate rainfall for most dairy farms over the critical months of the southern hemisphere summer. The 1991/92 production season formally closed on 31 May with the new season opening on 1 June. The industry was, however, now basically closed down for the winter, except for the small amount of milk being produced to service liquid milk market requirements. Substantial new milk supplies would not become available until early August, and it would be well into September before full production levels were reached. The 1991/92 season had produced approximately 362 million kgs. of milk fat processed compared to 343 million kgs. in 1990/91. This was mainly the result of the very favourable weather conditions in major dairying regions. Dairy cow numbers in 1990/91 were 3 per cent down on the previous season. Production in the 1992/93 season was forecast to be lower than in 1991/92 with a return to more normal rainfall patterns. With the exception of butter, the New Zealand Dairy Board had completed the current season with its supply position for all products tight to very tight.

59. The final manufacturing milk price fixed by the New Zealand Dairy Board for the 1991/92 season was NZ\$5.20/kg. milk fat, up from the interim price of NZ\$4.70/kg. milk fat fixed in February and the final price of

NZ\$3.70/kg. set for the 1990/91 season. This price resulted largely from the weaker value of the New Zealand dollar, but also reflected some real improvement in international market returns. The advance price which had been set for the 1992/93 season was NZ\$4.50/kg. milk fat.

60. There was continuing concentration in New Zealand dairy product manufacturing. The 1991 merger of the New Zealand Dairy Group and the Waikato Valley Dairy Company resulted in one dairy company processing about 45 per cent of all milk produced in New Zealand. In 1992, the two remaining dairy companies, Kiwi and Moana-Nui merged, becoming the second largest dairy company in New Zealand and processing 20 per cent of all milk. There were now sixteen co-operative dairy companies in New Zealand compared to seventy-five companies twenty years ago. The three largest companies controlled 75 per cent of all milk produced in New Zealand.

61. Up to March 1988, the Town Milk industry, which produced milk for liquid consumption, was highly regulated. It was administered by the New Zealand Milk Board. In 1988, the Board was abolished and the industry extensively deregulated. The Milk Act of 1988 was introduced to manage a five-year transitional period in which competition between processors was limited and home delivery was protected. This transitional period would end in April 1993. The integration of town milk into the dominant manufacturing sector of the New Zealand industry was almost complete. Of the twenty milk processors in New Zealand operating twenty-three processing plants, nineteen were fully or partly owned by co-operative dairy companies. Much of the milk for liquid milk production was now supplied from seasonal suppliers with only winter production earning higher prices. After April 1993, milk processors would no longer be required to operate home deliveries and the price of milk sold at retail outlets would no longer be controlled.

62. Market conditions on the whole had improved since March. Prices generally had been firmer than expected and the overall market outlook was better. This was particularly true for milk powder and casein products, while the market outlook for butter and other fat products remained

uncertain. The outlook for cheese markets was mostly positive but could be affected adversely by developments with butter.

63. The main reason for the relatively healthier outlook was the improved market balance achieved in the European Community. Major new additions to surplus stocks were not being generated this year during the seasonal peak production period. This was despite the absence of further reductions in milk quotas. Rather, the relative lack of surplus dairy product supplies was the result of good demand for products such as cheese to service expanding domestic market needs, as well as strong up-take of skimmed milk and butter under Community programmes. Intervention stocks of butter and skimmed milk powder were still substantial, but, contrary to the usual trend at this time of the year, they had been declining over the last three months. In the case of butter, stocks were being absorbed into subsidized food industry applications but there had also been a reshuffling of stock ownership from public to private hands in anticipation of firmer prices later in the year. Skimmed milk powder intervention stocks had been run down progressively by regular sales of the oldest holdings into stockfeed uses. Firm domestic wholesale prices had translated into stronger export prices from the Community where increases, in percentage terms, were leveraged up by the effect of the subsidies paid on exports. These improving tendencies had been helped by relatively stable currency exchange rate relationships since March, with the movement of the United States dollar against Community currencies confined to a relatively narrow band. Export prices had been boosted further by the cut made on 11 June to the EC's export subsidy on skimmed milk powder and related products, equivalent to US\$73/tonne.

64. Milk and dairy product production in other European countries generally was lower this year than in 1991, although the reasons varied. In Eastern Europe, especially Poland, it was a consequence of economic restructuring. In Scandinavia, on the other hand, it was a result of deliberate government policy moves to reduce support for dairy production. The net result was that there had been a marked reduction in available export supplies from these regions, especially of milk powder, and of casein from Poland.

65. Seasonal growth in United States milk production also had been relatively weak this year, compared to at least the last two seasons. The number of cows being milked was continuing to decline and this trend was only just being offset by increases in production per cow, so that total milk production was barely ahead of 1991 levels. With good demand for liquid milk, fresh dairy products and cheese, supplies of skimmed milk had been no more than adequate to serve requirements and the government had not needed to intervene in the market to support prices for skimmed milk powder. There were no surplus stocks of either cheese or skimmed milk powder currently held by the Commodity Credit Corporation. On the other hand, surpluses of butter had continued to be generated. Early in May, responding to the imbalance between the solids-non-fat and milk fat markets, the government made a further adjustment to its support prices for butter and skimmed milk powder. The butter support price was reduced by US\$243/tonne, offset by an increase in the skimmed milk powder price by US\$134/tonne. Added to the adjustment of the same order made in January, the butter support price of US\$1,681/tonne was 25 per cent lower than it had been at the beginning of the year, with the skimmed milk powder price 15 per cent higher at US\$2,145/tonne.

66. The first four months of 1992 had been a period of very solid demand for milk powder and, for related reasons, casein also. Purchases by major importers, notably Mexico, Venezuela and Algeria, had coincided in such a way as to absorb available supplies from major exporters well into the second half of this year. The active procurement of supplies in the European market for food aid to Eastern Europe and the Commonwealth of Independent States (CIS) had also contributed to the market tightening. Demand for casein and related products had tended to follow the tight market conditions of skimmed milk powder. This was especially the case in the United States where there had been strong, sometimes unsatisfied demand for most milk protein products including skimmed milk powder, buttermilk powder and casein products. Demand for cheese was strong in the major markets of Europe and North America, but more mixed in markets open to expanded shipments from New Zealand. Growth in imports into Japan had continued to be steady. The major uncertainty as far as demand was

concerned related to the commercial import requirements of Russia and other members of the CIS. This was continuing to cloud the market outlook for butter and related products. Other markets for butter remained fragmented and small. Buying activity over the last three months had been spasmodic. In view of the great commercial importance of the CIS market, the representative of New Zealand recalled his concern that food aid to this area should not disrupt normal commercial trade and that the FAO "Principles of Surplus Disposal and Consultative Obligations" should be observed.

67. In these circumstances, export prices for butter and butteroil had remained just above the GATT minimum export prices at US\$1,400-US\$1,500/tonne for butter and US\$1,625-US\$1,725/tonne for butteroil. Prices for skimmed milk powder had firmed significantly since March. With the latest EC subsidy change they were now solidly in the range of US\$1,800 to US\$1,900 per tonne f.o.b. Corresponding increases had occurred for whole milk powder with prices also in the range of US\$1,800 to US\$1,900 per tonne f.o.b. Cheese prices were also better than in March, with a range for Cheddar varieties of US\$1,750 to US\$2,100 per tonne f.o.b.

Japan

68. Production of raw milk had increased since October 1991, and for the January to March 1992 period it was 4.2 per cent higher than for the same period in the previous year. Production of 8.3 million tons during fiscal year 1991 had exceeded the previous year's quantity by 1.7 per cent. The demand for drinking milk between January and March 1992 increased by 2.1 per cent due to the high consumption level during the warm winter. Since the second half of 1991, the quantity of milk destined for the production of dairy products, such as butter and skimmed milk powder, had been higher than during the same period in the previous year. However, the Livestock Industry Promotion Corporation (LIPC) announced at the end of April that it would import 17,000 tons of skimmed milk powder in order to balance out the supply and demand situation during the summer, which was the peak season for milk consumption.

69. Every March, the Japanese Government sets down the administered prices for milk for the coming fiscal year beginning in April. Regarding fiscal year 1992, the guaranteed price for milk destined for processing was set at Y 76.75 per kg., which was the same as for the previous year. The standard transaction price was also unchanged at Y 65.40 per kg. Thus the deficiency payment, which covered the difference between these prices remained at Y 11.35 per kg. The Japanese Government had been making efforts to reduce the level of protection for dairy farmers by reducing the guaranteed price for the last six years. While the administered prices for fiscal year 1992 had not been reduced, the setting of this year's prices had been particularly difficult due to strong demands for a raise in the guaranteed price in order to recover from the damage caused by the large decrease of prices for calves and wasted dairy cows, resulting from the liberalization of beef imports.

70. Imports of skimmed milk powder for human consumption during the first quarter of 1992 decreased in comparison with the same period of the previous year, or in comparison with the fourth quarter of 1991. Imports for fiscal year 1991 by LIPC were completed by last October. Import prices of skimmed milk powder for human consumption decreased by about 10 per cent compared with the fourth quarter of 1991, whereas those of skimmed milk powder for animal feed increased. Imports of butter also decreased during the same period for the same reason as imports of skimmed milk powder. Import prices were relatively stable or slightly lower than in the fourth quarter of 1991.

71. Owing to a continuing increase in demand, imports of cheese had been maintained at the same level as last year's imports, which had risen sharply. Import prices were relatively stable compared with the fourth quarter of 1991.

Australia

72. The representative of Australia informed the Committees that the reply to Questionnaire 5 recently submitted to the Secretariat contained information on domestic policies and trade measures. This reply would soon be distributed as document DPC/INV/5/Add.3/Suppl.1.

73. Australian milk production for 1991/92 was now forecast to total 6,650 million litres, an increase by about 3 per cent on 1990/91. This further revision was a result of the continuation of exceptional seasonal conditions, especially in the main dairy producing State of Victoria where conditions, had been extremely favourable since December 1991. These production increases had been achieved despite an ongoing reduction in herd numbers. In addition to seasonal conditions, another significant factor behind increased national milk production had been farm level productivity gains, mainly as a result of improved feed management practices.

74. While national milk sales for the first three quarters of 1991/92 increased by 1.7 per cent to 1,319 million litres, in per capita terms milk consumption remained unchanged. Increased consumption, however, was not uniform across all milk types with sales of plain white milk continuing to fall while sales of fat-reduced and flavoured milks had risen. Ongoing consumer interest in low fat products underlaid recent milk consumption trends. The demand for lower fat products had also been encouraged by the launching of several new product ranges backed by increased sales promotion.

75. Production of butter/butteroil in the first three quarters of 1991/92 of 94,037 tonnes was 2.1 per cent higher than the corresponding period of 1990/91. As export prices for butter had remained only slightly above the GATT minimum level for most of 1991, local manufacturers had maintained production levels for 1991/92 at around the previous year level of 112,000 tonnes. Exports for the first three quarters of 1991/92 of 48,942 tonnes were slightly lower than the corresponding period in 1990/91. The absence of commercial sales to Russia continued to subdue the outlook

for the bulk butter export market. Uncommitted stocks at the end of the first quarter of 1992 of 32,636 tonnes were virtually unchanged from the corresponding period of 1991.

76. In line with butter production trends, skimmed milk powder production of 132,892 tonnes in the first three quarters of 1991/92 was up slightly compared to the corresponding period of 1990/91. Buttermilk powder production rose by 25 per cent to 9,636 tonnes in this period. Exports of skimmed milk powder for the first three quarters of 1991/92 of 90,268 tonnes represented a 7 per cent decrease on the comparable period in the 1990/91 season, despite a strong and sustained recovery in international skimmed milk powder prices since June 1991. Buttermilk powder exports rose by 42 per cent to 9,274 tonnes in this period, reflecting stronger overseas demand coupled with a recovery in international prices. Domestic sales of skimmed milk powder in the first three quarters of 1991/92 were down 1 per cent on the comparable period of 1990/91. Stocks of skimmed milk powder at the end of the third quarter of 1991/92 were 41,647 tonnes, virtually unchanged from the corresponding 1990/91 period. Stocks of buttermilk powder of 3,481 tonnes were 18 per cent below the corresponding period of the previous year as a result of substantially higher export demand outstripping production increases.

77. Production of whole milk powder in the first three quarters of 1991/92 rose by 17 per cent to 61,253 tonnes, reflecting a shift in manufacturers orientation away from butter/skimmed milk powder production to whole milk powder where better returns could be achieved. Exports of whole milk powder to the end of the third quarter of 1991/92, of 43,243 tonnes, represented a 20 per cent increase on the corresponding 1990/91 period. The major factors contributing to these improvements were increased opportunities in major Asian markets and a sustained recovery in international prices since June 1991 in tandem with skimmed milk powder prices. Domestic sales of whole milk powder were comparable with 1990/91 levels. Stocks at the end of the third quarter of 1991/92 of 22,162 tonnes were 15 per cent higher than the same period of 1990/91.

78. As relative export returns had favoured cheese and whole milk powder rather than butter, cheese production increased by 8 per cent to 164,132 tonnes at the end of the third quarter of 1991/92. Of the 12,000 tonne increase in production, roughly two thirds was made up of Cheddar types. Exports of cheese to the end of the third quarter of 1991/92 of 42,950 tonnes represented a 27 per cent increase on the corresponding 1990/91 period. Domestic sales of cheese to the end of the third quarter of 1991/92 rose by 1 per cent to 144,381 tonnes. Specifically, sales of Cheddar types rose by 5.4 per cent to 86,884 tonnes in comparison to the corresponding 1990/91 period whilst sales of non-Cheddar types fell by 5.7 per cent to 57,497 tonnes. The strength of export demand had held down the level of local stocks. At the end of the third quarter of 1991/92, cheese stocks of 97,742 tonnes were 1 per cent lower than the corresponding 1990/91 period. Cheddar stocks stood at 81,035 tonnes and non-Cheddar stocks at 16,707 tonnes for 1991/92.

79. The market outlook for milk powders, butterfat and cheese for the remainder of 1992 was likely to differ from product to product and would be subject to the impact of a number of external factors. The most significant of these factors was likely to be exchange rate movements (particularly of the ECU and the Yen against the United States dollar), EC export refund rates and the level of EC and United States stockpiles of dairy products. Prospects for milk powders for the remainder of 1992 appeared good with the likelihood of firm demand and a run down in EC intervention stocks of skimmed milk powder. International prices for milk powders rose again in May as demand for fresh product in the EC outstripped supply. Indicative Australian export prices for skimmed milk powder were in the range of US\$1,750-US\$1,825/tonne, buttermilk powder US\$1,400/tonne and whole milk powder US\$1,800/tonne. Butterfat prices had not shown the same strength as milk powder prices in 1991/92, mainly as a result of the large EC and United States stocks (approximately half a million tonnes) overhanging the world market. The likelihood was that butter/anhydrous milk fat would continue to trade close to their GATT minima in the 1992/93 season. Indicative Australian export prices for butter and anhydrous milk fat were currently in the range of US\$1,350-US\$1,400/tonne and

US\$1,650-US\$1,700/tonne, respectively. As a result of very high United Kingdom internal wholesale prices, international Cheddar prices rose in late 1991 to US\$1,800/tonne f.o.b. and had continued to trade well above the GATT minimum export price. Nevertheless, the prospects for the international cheese market for the remainder of 1992 were difficult to ascertain given the fragmented nature of the market wherein a number of the major markets (e.g. EC and the United States) were controlled by quotas. Indicative Australian export prices were currently in the range of US\$1,750-US\$1,825/tonne.

Canada

80. The target price for industrial milk was set at Can\$49.92 per hl., effective 1 August 1991, the beginning of the 1991/92 dairy year. This price had remained in effect throughout the dairy year. The support price for butter remained unchanged at Can\$5.33 per kg., but the support price for skimmed milk powder increased by 5.4 per cent to Can\$3.30 per kg. In-quota levies for the 1991/92 dairy year were estimated at Can\$3.37/hl., down slightly from the previous dairy year when they were Can\$3.44/hl. The over-quota levy was estimated at Can\$37.53/hl. in the 1991/92 dairy year, up from Can\$33/hl. the previous year.

81. Decreasing demand for butterfat and increased skim-off from the fluid milk sector had continued to put pressure on industrial milk production quotas. The Market Sharing Quota (MSQ) was reduced by 4.7 per cent on 1 August 1991, and was reduced a further 1 per cent in February 1992. The MSQ stood at 42.2 million hl., but expectations were that the MSQ would be cut by at least 3 per cent at the start of the 1992/93 dairy year. Projected production for the current year was 44.8 million hl., which was 2.1 per cent below last year's production. However, production in the last three months of the dairy year was falling dramatically. Fluid milk production was expected to remain virtually unchanged. Sales of whole milk for fluid use would continue to decrease by about 6 per cent; low fat and skimmed milk sales should increase by 2 per cent.

82. Butter consumption should fall by 4.5 per cent this dairy year and another 3 per cent next year. Production should be 3 per cent lower than in the 1990/91 dairy year. Butter exports for the 1990/91 dairy year totalled 10,460 tonnes and exports for the current year were forecast to be close to the same amount.

83. Cheddar cheese production should increase slightly this dairy year while consumption was expected to remain stable. For the 1992/93 dairy year, production and consumption were expected to increase by about 1.5 per cent. Production and consumption of specialty cheeses were expected to increase by 2 per cent.

84. Skimmed milk powder production was forecast to fall by about 5 per cent this year and almost 7 per cent next year. Canada was nearing the point of self-sufficiency in skimmed milk powder and therefore exports would fall sharply in the coming years. Skimmed milk powder exports for the 1990/91 dairy year totalled 35,720 tonnes and exports for the current dairy year were forecast to be 39,000 tonnes.

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

Adoption of report to the Council

86. 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/25.

Other business

87. Speaking under other business, the representative of New Zealand recalled an earlier proposal to increase the minimum prices for milk powders. A paper on this matter would soon be submitted to the Secretariat for circulation to participants. He hoped that participants would reflect on the issue and come prepared in September for debate and decision. It

was confirmed that the matter would be reverted to at the September meetings of the Committees.

Date of next meetings

88. The next regular sessions of the Committees will be held consecutively on 14 and 15 September 1992, subject to confirmation by the Secretariat.