

# GENERAL AGREEMENT ON

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## TARIFFS AND TRADE

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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 Fifty-Third Session

16 March 1993

#### Introduction

1. The three Protocol Committees held a joint session on 16 March 1993 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. Election of Chairman and Vice-Chairman
- B. Adoption of report on the fifty-second session
- C. 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

- D. Transactions other than normal commercial transactions
- E. Sales under derogation
- F. Review of the market situation
- G. Review of the level of minimum prices under Article 3:3(b)
- H. Oral report to the Council
- I. Date of the next meetings

Election of Chairman and Vice-Chairman

3. In accordance with Rule 15 of the Rules of Procedures, the Committees re-elected Mr. Kim Luotonen (Finland) as Chairman for 1993/94; no Vice-Chairman was elected.

Adoption of report on the fifty-second session

4. The report of the fifty-second session was adopted and distributed in document DPC/PTL/29.

Information required by the Committees

(a) Replies to Questionnaires 1 to 3

5. The Committees reviewed the replies to Questionnaires 1 to 3 and requested participants who had not yet submitted such information in respect of the fourth quarter of 1992 to do so without further delay. Participants were also requested to provide all the relevant information concerning the first quarter of 1993 by 11 June 1993, at the latest.

(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, skimmed milk powder and whole milk powder and issued, respectively, in documents DPC/PTL/W/87, DPC/PTL/W/88 and DPC/PTL/W/89. 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 fourth quarter of 1992 and forecasts for the first quarter of 1993.

Transactions other than normal commercial transactions

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

Sales under derogation

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

Review of the market situation

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

Switzerland

11. As of March 1993, producer price decisions of the Government, which are usually made in autumn, were still pending. Milk deliveries decreased by 2.2 per cent to 2.87 million tons in 1992.

12. Cheese production in 1992 was a mere 2 thousand tons below the 1991 level of 134 thousand tons. For 1993, an increase is forecast as a result of higher milk deliveries. Exports were up by 5.5 per cent reaching 64.7 thousand tons, with forecasts for 1993 indicating a stagnation or a small decline. Imports stagnated at 27 thousand tons in 1992. Cheese consumption dropped slightly to 96.7 thousand tons (- 1.5 per cent). Cheese stocks were down by 8 per cent at year's end and are forecast to stabilize at this level in 1993. The situation in the skimmed milk powder market was stable in 1992. Butter production declined by 1 thousand tons to 33 thousand tons, whereas consumption continued to increase marginally by 0.8 per cent. This consumption trend, which began three years ago and which is contrary to most Western European countries, was tentatively ascribed to market deregulation and aggressive marketing.

Sweden

13. Milk production increased in the second half of 1992, whereas total output in 1992 remained stable at the 1991 level of 3.2 million tons. For 1993, output is forecast at 3.3 million tons, a 3 per cent increase over 1992. Cheese production rose by 3 per cent in 1992 to 110 thousand tons, with the forecast for 1993 indicating a 2.5 per cent increase to 113 thousand tons. Cheese exports in 1992 were estimated at 2 thousand tons. Skimmed milk powder production decreased by 5 per cent to 30 thousand tons. Exports were estimated at 4 thousand tons, down from 17 thousand tons in 1991. Butter production decreased by 3 per cent to 37 thousand tons while consumption roughly stabilized at the 1991 level. Preliminary estimates of butter exports in 1992 indicate a 25 per cent decline to approximately 17 thousand tons.

Norway

14. Milk deliveries totalled 1.83 million tons in 1992, a decline of 0.5 per cent compared to 1991. A further decrease is expected in 1993 as a consequence of the Government's buying back scheme of milk production quotas.

15. Cheese production in 1992 declined by 1 per cent to 79.8 thousand tons, and is forecast to decrease further in 1993 along with reduced milk deliveries. Consumption rose by 1 per cent to 56 thousand tons. Exports expanded by 18 per cent to 26.4 thousand tons, whereas imports remained stable at 2.4 thousand tons. Milk powder production and consumption remained at their usual low levels of less than 10 thousand tons. No change in production and consumption is expected in the foreseeable future. Trade in milk powders was negligible. Waning demand led to a decrease in butter production of nearly 7.5 per cent to 17.3 thousand tons. Butter exports dropped by 22 per cent to 5.8 thousand tons.

Finland

16. Milk deliveries in 1992 were 3 per cent lower than in 1991. Preliminary estimates indicate a total production of 2.48 million tons. Deliveries in 1993 are forecast to decline further to 2.34 million tons.

17. Cheese production rose by 3.5 per cent to 88.3 thousand tons in 1992. Consumption also increased, by 3 per cent to 70 thousand tons. Cheese production in 1993 is forecast to remain stable, while consumption is expected to rise to 72 thousand tons. Exports were down by 3 thousand tons to 25 thousand tons. Skimmed milk powder production dropped by 27 per cent to 14.6 thousand tons, with a further decline to 13 thousand tons forecast for 1993. Butter production in 1992 totalled 56.7 thousand tons, a decrease of 5 per cent compared to 1991. Butter output in 1993 is forecast to remain at this level. Butter consumption declined by 2 per cent to 38 thousand tons, resulting in a surplus of production in the order of 20 thousand tons. Exports decreased from 22 thousand tons in 1991 to 16 thousand tons in 1992.

South Africa

18. Food-aid deliveries of butter and skimmed milk powder destined for Southern Africa found their way to the South African market at prices below the GATT minimum prices. These supplies had adverse effects on the stability of the domestic market.

19. In 1992, milk production totalling 1.93 million tons exceeded consumption by more than 88 thousand tons, which resulted in higher than expected stocks of skimmed milk powder and butter. Milk production in 1993 is forecast at 1.95 million tons, an increase of 1 per cent over 1992. The projected increase in production together with the decline in aggregate demand for dairy products may lead to a milk surplus in the magnitude of 155 thousand tons. Total consumption of dairy products is expected to decrease by 4.8 per cent in 1992/93, and a further decrease to 1.78 million tons milk equivalent is forecast for 1993/94. Consumption of drinking milk and fresh milk products remain at a level of 0.97 million tons, whereas demand for pasteurised milk shows a decreasing trend. Consumption of long-life milk is forecast to increase by 7.5 per cent in 1993/94 to 170 million litres. Demand for yoghurt (natural and flavoured) is expected to rise by 3.5 per cent to reach 59 million litres in 1993/94.

20. Demand for traditional cheeses, i.e. Cheddar and Gouda, declined further in 1992, with the decrease in consumption amounting to 14 per cent. This trend was attributed to the appearance of a variety of new branded variants of Gouda and Cheddar. The total market for cheese was estimated at 38.5 thousand tons. Trade in cheese was negligible. Production of skimmed milk powder increased by almost 3 per cent in 1992 to a level of 19 thousand tons. In contrast, consumption decreased by 14 per cent due to a decline in demand for industrial processing, as skimmed milk powder has been substituted by lower priced imports of other proteins. Exports of skimmed milk powder fell from 10 thousand tons in 1991 to 1 thousand tons, leading to a tripling of skimmed milk powder stocks to 11 thousand tons at year's end. Production of whole milk powder increased by 15 per cent to

12.7 thousand tons in 1992. Butter production decreased by almost 4 per cent to 34 thousand tons in 1992. For 1993, both butter production and consumption are forecast to remain stable.

#### Romania

21. Production of milk and dairy products continued to decline in 1992. Fresh milk production decreased by 7 per cent to 370 thousand tons; production of fresh dairy products dropped by 45 per cent to 154 thousand tons. Cheese production and consumption fell by 36 per cent to 46 thousand tons. Exports were in the magnitude of 2 thousand tons. Production and apparent domestic consumption of skimmed milk powder dropped from 9 thousand tons in 1991 to 5.4 thousand tons in 1992. Whole milk powder production totalled some 5 thousand tons in 1992, falling short of consumption by some 5 thousand tons. Food-aid deliveries by the EC made up 2 thousand tons of the gap. Butter production declined by some 2 thousand tons to 20 thousand tons in 1992, while consumption increased to 30 thousand tons. Food-aid deliveries by the United States filled the bulk of the shortfall in production.

#### Poland

22. Milk production declined to 13.2 million tons in 1992, a drop of almost 10 per cent compared to 1991. It is forecast that milk production in 1993 will further decrease by 820 thousand tons. Milk deliveries declined to 7 million tons in 1992. The fall in the supply of raw milk in 1992 led to a decline in output of most dairy products. However, due to diversification of consumer preferences, various dairy products were more or less severely affected. For example, butter consumption fell sharply, whereas consumption of cottage and spread cheese, cream and milk desserts rose. Moreover, the share of domestic production in the supply of long-life milk, ice-cream and milk desserts rose in the course of 1992, reflecting improved supply conditions in the domestic dairy industry.

23. For 1993, a further decline in milk purchases by dairies is anticipated. It is expected that fresh milk production will decrease while sales of long-life milk will remain at the 1992 level. The current investment committed to the modernization and restructuring of the dairy industry will likely result in an increase in the production of ice-cream, yoghurt and other milk drinks.

24. Skimmed milk powder output rose slightly in 1992 to 150 thousand tons, 91 thousand tons of which was exported. Skimmed milk powder exports thus doubled in 1992. Whole milk powder production increased by 6 thousand tons to 65 thousand tons. Exports totalled 9.5 thousand tons while imports were 2.5 thousand tons. Cheese production declined from 111 thousand tons in 1991 to 97 thousand tons in 1992. Consumption increased by almost 10 per cent to 120 thousand tons, almost one-fifth of which was covered by imports. Poland's cheese imports rose from almost zero in 1991 to 22 thousand tons in 1992. Butter production fell by 21 per cent from 190 thousand tons in 1991 to 150 thousand tons in 1992. Butter consumption decreased by 19 per cent in 1992 to 158 thousand tons, yielding a per capita consumption of some 5.2 kgs. Exports, which in 1991 totalled some 5 thousand tons, subsided in 1992. Imports, on the other hand, increased from 4 thousand tons to 10.6 thousand tons in 1992. Casein production dropped from 21 thousand tons in 1991 to 12 thousand tons.

#### New Zealand

25. The 1992/93 dairy season began with cold and wet conditions in early spring, which held back early season pasture growth in a number of key dairying regions. The middle of the season was good with even rainfall and unusually cool conditions providing excellent pasture conditions. These conditions continued through the summer and into early February 1993 and production remained high through this period. Since mid-February, milk production has decreased rapidly as dryer conditions have set in.

26. The number of dairy cows is estimated to have increased by about 70 thousand compared to the previous season. This increase continued the build-up of the dairy herd over the past decade, with cow numbers rising by an average of 1.5 per cent annually. In New Zealand, the pattern of culling, which occurs in the course of the season, exerts a significant influence on milk production. During the last two seasons, when production conditions were relatively favourable, milk production capacity was maintained for a longer period, as culling was delayed on many farms or not as rigorously undertaken as in previous seasons.

27. Forecasts for the 1992/93 season indicate that production is likely to have increased by 1 to 2 per cent compared to 1991/92. Manufacturing milk production is forecast to total 370 thousand tons of milk fat, compared to 364 thousand tons in 1991/92. The interim value for manufacturing milk in the 1992/93 season was adjusted to NZ\$5.30/kg. milk fat in February. The Dairy Board expects the final value for the season to be fixed between NZ\$5.50/kg. and NZ\$5.60/kg., as compared to NZ\$5.20/kg. in the 1991/92 season.

28. Production of whole milk powder and, at a lower rate, cheese was expanded at the expense of butter and related products. The dairy industry nonetheless remained heavily dependent on butter (and related products) with about 60 per cent of the total milk fat supplies utilized for butter manufacture. Drying capacity constraints and the expansion of whole milk powder production limited the volume of skimmed milk powder production, with the effect that casein production in the 1992/93 season was higher than normal. It is New Zealand's objective to shift output from butter production to milk powders. In order to provide incentives at farmgate to this effect, instruments such as a two-tier price system have been considered, i.e. a split price regime for milk fat and protein.

29. The industry's current stock position with regard to milk powder and cheese is well balanced to tight, and production from the current season is more or less fully committed. The higher-than-preferred volume of casein production will likely lead to an increase in stocks to slightly in excess

of the ideal level. The butter stock position is less favourable and exacerbated by the collapse of the CIS market. New Zealand is owed some US\$100 million for butter delivered to the USSR in 1991. Butter stocks could eventually reach 30-50 thousand tons.

30. New Zealand stated that the world market situation and export price trends continued to be dominated by the EC. As the internal market was several times larger than the world market, world prices - via export refunds - were driven by the EC's internal price movements. The generally favourable and, by historical standards steady, level of export prices in recent months reflected the improvement of the market balance in the EC.

31. New Zealand identified three main factors which determined the EC's export prices and hence international prices: movements in internal market prices, changes with respect to export restitutions and currency fluctuations. The EC's domestic prices tended to weaken through the late months of 1992. Since the beginning of 1993, prices strengthened to the effect that domestic prices were recently at about the same levels as six months ago. The exchange rate of the US dollar against major European currencies is currently about 10-15 per cent above levels prevailing in the third quarter of last year when the dollar was at its weakest. The appreciation of the US dollar means that Community export prices of all major products except casein are now approximately US\$300/ton lower than in the third quarter of last year, all other factors unchanged. The currency fluctuations have been, by far, the most important factor influencing short-term price movements in the dairy markets (with the exception of the casein market).

32. World market conditions are not equally favourable for all products. Prices for skimmed milk powder continue to be relatively high and buoyant. This strength has spilled over to related dairy products markets, pushing up prices for whole milk powder, casein and cheese. By contrast, the markets for butter, butter oil and related products are depressed. New Zealand pointed to the danger that pressure on the market for milk fat products could eventually weaken markets for other products, such as whole milk powder and cheese.

33. New Zealand asserted that the world market transactions of the United States have had a significantly smaller impact on world prices than those of the EC. The volume of United States exports has not increased dramatically despite the more active use of the Dairy Export Incentive Program (DEIP). Activity under this programme tended, however, to generate market expectations of more intense competition and weaker prices.

34. Sales opportunities for butter and butter oil remain very limited relative to available supplies. The EC's export restitutions were set to target export prices at the GATT IDA minimum prices of US\$1,350 and US\$1,625 per ton, respectively. World prices are close to these minimum prices.

35. Since the beginning of 1993, skimmed milk powder prices have moved in the range between US\$1,750 to US\$1,850/ton f.o.b., as compared to a range of US\$1,800 to US\$1,900/ton f.o.b. which prevailed in the second half of last year. Supply remains tight and market conditions are fundamentally sound. Since the adjustments of the EC's whole milk powder export refunds in October and November 1992, whole milk powder prices have moved in parallel with movements in skimmed milk powder prices, though at a margin of US\$70 to US\$100/ton f.o.b. lower. Currently, prices are fluctuating in a range of US\$1,625 to US\$1,725/ton f.o.b., with the price range reflecting daily currency fluctuations.

36. As the United Kingdom is a large producer of Cheddar cheese, international Cheddar cheese prices have been severely influenced by the large falls in the exchange rate of the pound sterling since September 1992. Although the depreciations of the pound went along with adjustments of the green currency and Monetary Compensatory Amounts (MCA), the lags in the adjustment process resulted in offer prices by exporters in the United Kingdom at very low levels. This had a weakening influence on prices in general. Current prices for Cheddar cheese are in the range of US\$1,750 to US\$1,880/ton f.o.b. For other cheese varieties, prices have been mostly steady.

37. The reduction in the EC casein production subsidy in July 1992 boosted casein prices in the EC and provided a stimulus to prices in other markets. By the end of 1992, prices for edible grades of acid casein had settled in the range of DM 8,000 to DM 8,500/ton and in the United States in the range of US\$2.25 to US\$2.40/lb.

#### Japan

38. Since August 1991, monthly raw milk production has shown an increase compared to the corresponding period in the previous year. In particular, output increased in Hokkaido, the main dairy production area. Total raw milk production in 1992 exceeded that of 1991 by 4 per cent, reaching 8.6 million tons.

39. Overall demand for drinking milk, the major share being consumed as plain whole and processed milk, remained almost unchanged in 1992. A rise in consumption was held back by the economic slow-down. Nonetheless, consumption of fermented milk increased by 16 per cent to 348 thousand tons in 1992, as a consequence of consumers' growing health concerns. Consumption of new products, such as milk with other nutritive additives or flavoured milk, grew by 3.4 per cent to 848 thousand tons.

40. Given the rise in milk supplies and stagnant demand for drinking milk, the volume of raw milk available for the manufacture of butter and skimmed milk powder increased last year. Output grew sharply by 25 per cent and 14 per cent, respectively. In 1993, butter and skimmed milk powder demand are forecast to decrease. Cheese production expanded by 6.6 per cent in 1992. Consumption of cheese increased, though for some cheeses demand appeared to stagnate as the result of the recession.

41. By June 1992, the Livestock Industry Promotion Corporation (LIPC) had concluded the import of 17 thousand tons of skimmed milk powder. Thereafter, the LIPC temporarily interrupted imports, as domestic prices fell in summer. Imports are aimed at stabilizing the domestic supply and demand balance, and wholesale prices. Total skimmed milk powder imports in



1992 dropped from 117 thousand to 97 thousand tons. In the fourth quarter of 1992, import prices of skimmed milk powder for human consumption remained at the same level as in the corresponding period in 1991.

42. Butter imports in 1992 were down by 86 per cent, reaching the negligible volume of 3 thousand tons. This development was the corollary of rising domestic production and falling wholesale prices for butter. Import prices for butter in the fourth quarter of 1992 remained unchanged compared to the previous year's levels.

43. Cheese imports have shown a fairly stable rate of increase. Imports of natural cheeses, which constitute the bulk of Japan's imports, grew by 3 per cent in 1992 to 126 thousand tons. Import prices have begun to rise since the fourth quarter of 1991; in the fourth quarter of 1992, however, prices remained unchanged compared to the preceding quarter.

#### Hungary

44. Milk production decreased by 5 per cent in 1992 to 2.3 million tons, while milk deliveries dropped by 16 per cent to 1.7 million tons. Producer prices which barely covered production costs induced dairy farmers to decimate their herds. By the end of September 1992, the dairy herd totalled approximately 618 thousand head, which was 12 per cent less than a year before. Delivery prices were raised to Ft 16.50 in 1992, a nominal increase of 17 per cent compared to 1990. Hungary is pursuing the policy of complete price liberalization including the elimination of consumer subsidies. This is one factor responsible for the substantial decline in consumption.

#### Australia

45. National milk production in the six-month period July-December 1992 was 10 per cent higher than the corresponding period in 1991. This was mainly due to excellent seasonal conditions during spring and early summer. Total milk production for the 1992/93 season is forecast to increase by

8 per cent to 7.4 million tons as the result of lower feed grain prices, higher than usual on-farm fodder conservation and generally excellent herd health.

46. Growth in market milk sales for 1992/93 to date has averaged around 2 per cent. Sales are expected to reach 1.9 million tons for the full year. Because of the high level of milk deliveries, milk supplies for manufacturing will increase by approximately 9 per cent. This increase will be reflected by production increases in most product lines.

47. Butter production in the period July to December 1992 was 75 thousand tons, an increase of approximately 24 per cent over the corresponding period in 1991. This reflects the increase in milk supplies, and increased volumes of butterfat available from the manufacture of low fat milk and dairy products. Because of the uncertainty in the international butterfat markets and increased stock levels, manufacturers are seeking to slow-down the increase in butter production during the second half of the season. Forecasts for butter and butter oil production in 1992/93 indicate a 13 thousand ton increase to 125 thousand tons. Despite increased production, weak market prospects are expected to limit butter and butter oil exports for 1992/93 to a maximum of 60 thousand tons. This would result in a significant increase in stocks, up from 23 thousand tons in 1991/92 to 37 thousand tons. Domestic sales of butter rose slightly during 1992, largely as a result of renewed consumer interest in dairy blends.

48. Cheese production is expected to increase by 6.4 per cent in 1992/93 to a total of 210 thousand tons. Domestic sales in July to December 1992 were 1.5 per cent higher than the corresponding period in 1991, and reflect increased demand for convenience varieties (shredded and sliced) and lower fat lines. Cheese exports in 1992/93 are forecast to be 80 thousand tons, an increase of approximately 20 per cent on last year's figure. Sales increased to Japan, Australia's major overseas market, as well as to the Middle East and non-traditional destinations.

49. Domestic sales of milk powders have traditionally been low relative to export sales. While domestic demand for milk powders has been steady over recent years, Australia experienced increased competition from imports, notably from New Zealand. Whole milk powder and skimmed milk powder sales in 1992/93 are forecast to reach 11 thousand and 36 thousand tons, respectively. Exports of skimmed milk powder and buttermilk powder are estimated to increase by 15.5 per cent during 1992/93 to reach 140 thousand tons. Whole milk powder exports are forecast to increase by 10 thousand tons to a level of 65 thousand tons.

50. International butterfat prices remain relatively depressed, with widespread reports of traders continuing to offer butterfat at prices which are considerably below the respective GATT minimum prices for butter and anhydrous milk fat. Prices quoted otherwise remain at US\$1,350/ton for butter and US\$1,625/ton for anhydrous milk fat.

51. Milk powder prices, by contrast, are relatively buoyant. After a decline in the Christmas-New Year period, which was largely due to currency re-alignments in the EC, milk powder prices stabilized. Internal prices in the EC in January and February remained steady. Recently, international skimmed milk powder prices decreased slightly as new production in Australia has become available. While offer prices from some other countries are slightly lower, Australian offer price for skimmed milk powder are in the range of US\$1,750 to US\$1,800/ton. Whole milk powder offer prices are in the vicinity of US\$1,700 to US\$1,750/ton. Prices for buttermilk powder are in the range of US\$1,500 to US\$1,700/ton, with quality differences accounting for the price range. Cheddar prices are relatively firm at around US\$1,850 per ton. The cheese market has benefited from the strength of the Japanese market. The impact of currency fluctuations on the cheese market has been relatively minor.

52. Regarding the outlook for 1993, Australia pointed out the following trends and factors - both positive and negative - which will have a bearing on world market developments:

- World milk supplies are forecast to fall slightly. Eastern European countries are expected to gradually come to terms with production difficulties. The dairy market continues, however, to be adversely affected by the loss of the commercial market in the former Soviet Union. Production in Europe is expected to remain fairly stable.
- The strong growth in milk production in the United States, which was recorded in the second half of 1992, is anticipated to level off in 1993. The planned expansion of subsidized dairy exports under the Dairy Export Incentive Program (DEIP) in 1993 is expected to have a negative effect on the market situation.
- Demand for cheese and market milk is forecast to increase in Europe along with the expected economic recovery. Strong demand for milk powders is also anticipated in Asia and Latin American countries. Most importers are believed to be waiting on the impact which the spring season production in the Northern hemisphere will have on offer prices.
- With respect to the Common Agricultural Policy (CAP), the cut in the minimum incorporation rate for skimmed milk powder in calf feed together with reduced casein subsidies could lead to additional market supplies in the magnitude of 200 thousand tons of skimmed milk powder. Moreover, the recently announced proposal by the EC Commission to defer the envisaged cut in milk quotas could lead to market supply pressure in 1993.
- Increased food-aid deliveries by the United States and the EC, as a tool to contain structural surpluses, are likely to hinder commercial market development.
- Short-term spot prices for dairy products continue to be influenced by currency movements. The continuing instability of the European currencies could have substantial price effects on the international dairy market.

53. In summary, the market outlook for 1993 is judged as satisfactory with the caveat of the butter market. Demand is anticipated to remain firm for whole milk and protein products but the potential exists for producers to shift production from butterfat to whole milk, which may limit price increases in the whole milk products sector. Increased skimmed milk powder exports of the EC and the United States may also dampen price trends in this market segment.

#### Argentina

54. The Argentinian dairy industry operates under a fully liberalized market regime, with hardly any interventions at the frontier and no domestic support measures. Tariff barriers are low, non-tariff barriers are non-existent, and there are no production quotas or producer subsidies, such as soft loans.

55. Trade data for 1992 indicate an increase of imports and a decrease of exports for the pilot products. Skimmed milk powder and whole milk powder imports increased to 18 thousand tons and 16 thousand tons, respectively. Butter imports rose by about 50 per cent to 12 thousand tons, while cheese imports increased from 2.5 thousand tons in 1991 to almost 7 thousand tons in 1992. The shift in consumption towards higher value-added products underlies the observed increase in imports of dairy products.

#### European Communities

56. Since December 1992, the EC has taken a number of decisions pertaining to the dairy sector. The New Zealand quota for butter exports to the United Kingdom was fixed at 57.83 thousand tons with a reduced levy of ECU 34.28/100 kgs. (Regulation No. 3841/92). In addition, the Commission submitted its price proposals to the Council of Ministers on 3 February 1993, which include the extension of the current marketing year to the end of June. On 1 July 1993, as part of the CAP reform, the intervention price for butter is due to be cut by 2.5 per cent entailing a reduction in the milk target price by some 1.3 per cent. Moreover, the

Commission proposed to advance the butter price reductions that were planned to take effect in 1993/94 and 1994/95, i.e. to reduce the butter price by 5 per cent in 1993/94 rather than to divide the cut among two marketing years. The collection of the co-responsibility levy will be suspended, effective 1 April 1993. The Commission further proposed to continue the suspension of the inward processing arrangements in the marketing year 1993/94.

57. A further set of proposals concerning the EC quota system await the Council of Ministers. In December 1992, the Council of Ministers adopted Regulation No. 3950/92, simplifying and codifying the milk quota system up to the year 2000. It was decided in principle to solve the Italian dairy quota problem, with deliveries of 2.47 million tons in excess of the quota, by reducing deliveries by 1.57 million tons. In return, Italy's national quota would be increased by 900 thousand tons. Furthermore, the EC Commission proposed to postpone by one year the reduction of the aggregate milk quota. The pending decision is whether or not to reduce the EC quota by 2 per cent in 1994/95 rather than by 1 per cent both in 1993/94 and 1994/95, as was envisaged in the CAP reform.

58. The market situation is stable. Butter and skimmed milk powder prices are currently in the vicinity of 91 per cent and 105 per cent of the respective intervention prices. The upturn in milk deliveries in the last quarter of 1992 was not sustained in the first quarter of 1993, with deliveries in a number of member States below levels recorded in 1992.

59. Milk deliveries and production figures in the EC for 1991/92 are as follows (Italy and Spain are excluded due to statistical discrepancies):

|                     |                 |
|---------------------|-----------------|
| Deliveries          | - 2.1 per cent  |
| Butter              | - 10.0 per cent |
| Skimmed milk powder | - 22.0 per cent |
| Other milk powders  | - 10.0 per cent |
| Cheese              | + 3.0 per cent  |

60. Consumption of fresh products increased by 1 per cent, cheese consumption increased by 2 per cent and butter consumption decreased by 3 per cent in 1992 (i.e. total butter consumption as opposed to butter consumption "at normal", not subsidized prices). Internal sales with subsidies, going mostly to the pastry and ice-cream industry, increased slightly to about 435 thousand tons.

61. The reduction in skimmed milk powder production in 1992 led to a decrease in the use of subsidized skimmed milk powder in the calf feed sector by about 50 thousand tons. On the other hand, the decline in production was accompanied by a 30 per cent increase in the use of skimmed milk for the manufacture of casein. The casein aid was reduced from ECU 7 to ECU 6.30/100 kgs., effective 1 March 1993. The minimum incorporation rate of skimmed milk powder in calf feed was reduced from 50 to 35 per cent, effective 1 February 1993. A further measure taken to dampen the price pressure in the skimmed milk powder sector was the reduction of the validity period of export licences with refunds from six months to three months. The above measures were instituted with a view to avoid a decrease in consumption levels rather than to produce unforeseen large volumes for export.

62. In the butter sector, the aid for butter utilization in the ice-cream industry was recently increased by 3 per cent. Butter purchases into intervention fell to about 200 tons per week, totalling less than 10 thousand tons in the first quarter of 1993. About 6 thousand tons of intervention stocks have been sold to the pastry and ice-cream industries. A quantity of 1.5 thousand tons of butter oil was exported at a price of US\$1,700/ton f.o.b.

63. Intervention stocks level are currently as follows:

|                     |                   |
|---------------------|-------------------|
| Butter              | 186 thousand tons |
| Skimmed milk powder | 30 thousand tons  |
| Cheese              | 138 thousand tons |

Butter stocks in 1993 are forecast not to exceed 240-250 thousand tons.

64. Trade data were not yet complete for all member States. The following figures regarding exports are therefore to be taken as indicative for 1992 (in percentage change):

|                     |        |
|---------------------|--------|
| Fresh products      | + 3 %  |
| Condensed milk      | + 6 %  |
| Skimmed milk powder | + 62 % |
| Whole milk powder   | - 7 %  |
| Butter              | - 16 % |
| Butter oil          | - 3 %  |
| Cheese              | - 4 %  |

65. The Community's calculated f.o.b. prices per ton, which take into account pre-fixations of export refunds, were as follows:

|                     |                        |
|---------------------|------------------------|
| Butter              | US\$1,370 to US\$1,430 |
| Butter oil          | US\$1,650 to US\$1,720 |
| Skimmed milk powder | US\$1,725 to US\$1,920 |
| Whole milk powder   | US\$1,700 to US\$1,800 |
| Cheese              | US\$1,900 to US\$2,100 |

66. The EC reported a 5 per cent increase in milk deliveries in New Zealand for 1992/93 and a 8 per cent increase for January 1993 compared to January 1992. Milk deliveries by the United States were up by about 3 per cent last year. The EC expressed its concern about the doubling of the subsidized export incentives of the United States. Potential offer prices and intended volumes may have a very significant effect on world market prices.

#### Canada

67. Industrial milk and cream production in the first four months of the current dairy year (August 1992-November 1993) was 9 per cent below year earlier levels, which were exceptionally high. For the complete dairy year, industrial milk and cream production is forecast to be 4.34 million tons, 5.5 per cent lower than in the 1991/92 dairy year, but still above

the Market Sharing Quota (MSQ) level of 4.23 million tons. Sales of fluid milk, on the other hand, are forecast to increase slightly from 3.12 million tons in 1991/92 to 3.19 million tons in the current dairy year.

68. It is forecast that butter production in the current dairy year will total 86 thousand tons, a decrease of 5.4 per cent compared to the previous dairy year. Exports are forecast at 10 thousand tons, down marginally from 10.8 thousand tons recorded in the 1991/92 dairy year. Domestic disappearance is expected to decrease by 2.3 per cent.

69. For the 1992/93 dairy year, production of skimmed milk powder is forecast at approximately 54 thousand tons, a decrease of 10 per cent compared to last year. Exports are expected to be 19 thousand tons, down from 61 thousand tons in the previous dairy year.

70. Cheddar cheese production has declined by close to 12 per cent during the first four months and is forecast at 109 thousand tons for the 1992/93 dairy year, 4.6 per cent below last year's production. Domestic disappearance, however, should be 3 per cent higher than last year. Exports are forecast to be 8.5 thousand tons, down from 9 thousand tons in the previous dairy year. Specialty cheese production is expected to increase to 154 thousand tons, up from 151.4 thousand tons in the 1991/92 dairy year. Domestic disappearance should increase by 1.8 per cent to 166 thousand tons.

71. Production of concentrated whole milk is forecast to increase to 54.5 thousand tons compared to 50.2 thousand tons in the 1991/92 dairy year. Exports in the current dairy year are expected to be close to 9.5 thousand tons, down from 13.9 thousand tons last year.

72. On 1 February 1993, the Canadian Dairy Commission (CDC) announced increases in the target price for industrial milk and support prices for butter and skimmed milk powder. The target return to producers was increased from Can\$49.76 to Can\$50.26 per hl. The processor margin

remained at Can\$7.52 per hl. The support price for skimmed milk powder rose from Can\$3.304 to Can\$3.339 per kg. and the support price for butter increased from Can\$5.317 to Can\$5.363 per kg.

73. In December 1992, the Canadian Government announced that agricultural subsidies were to be cut by 10 per cent for the next two years. It was decided that, effective 1 August 1993, the dairy subsidy would be reduced from the current level of Can\$6.03 to Can\$5.43 per hl. The CDC is to decide how this cut will be implemented and whether the impact of the reduction will be absorbed by producers or consumers.

#### FAO

74. According to FAO estimates, world milk production from cows and other livestock declined by 2.5 per cent to 516 million tons in 1992. In the developing countries, however, milk output continued to rise to reach approximately 164 million tons in 1992, an increase of 2 per cent compared to 1991. Thus the developing countries' share of world milk production was less than one-third.

75. In Africa, production dropped substantially as Southern Africa was severely affected by drought. Several countries in Southern Africa are expected to increase milk powder imports for reconstitution in order to compensate for lower domestic supplies. In Asia, by contrast, output was estimated to have increased by 3 per cent. Milk production in India, the largest milk producer among the developing countries, grew by an estimated 4 per cent. In China, the dairy sector continued to expand, with the growth rate in 1992 estimated at 8 per cent.

76. In 1993, milk production is expected to grow further in Asia, stimulated by rising demand. India's production is forecast to reach 63 million tons. Sustained growth is also expected in China. Strengthening demand and price liberalization could also benefit producers in several Latin American countries. In Brazil and Mexico production is expected to expand by 3 per cent in 1993, to 16 million tons and 7.5 million tons, respectively.

Economic Commission for Europe

77. Milk production dropped by about 13 per cent in the CIS countries in 1992. The continuing fall in feed supplies resulted in a further reduction in the cow herd and a decrease in milk yields. The Russian Federation, which accounts for three-quarters of total milk output of the former USSR, registered a fall in milk production of about 10 per cent. State purchases dropped by 24 per cent.

78. Butter production in the CIS declined by approximately 6 per cent in 1992, whereas in the Russian Federation butter output reportedly increased by 1 to 2 per cent. Cheese production was estimated to have fallen by 25 per cent while milk powder production declined by 7 to 8 per cent.

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

79. The Committees discussed the level of minimum prices for products covered by the respective Protocols. This review was initiated by an earlier proposal by New Zealand to increase the minimum prices for milk powders (DPC/PTL/W/78), which New Zealand maintained was still valid in light of the market situation. Other participants also expressed concerns about the relationship between the prices of pilot products and underlying market trends, and about the low market prices for butter. However, there was no agreement to change the minimum prices at this time. Participants stressed the importance of observing minimum prices in all transactions, including those made by observers to the Arrangement. The Committees agreed to revert to these matters at a subsequent meeting.

Oral report to the Council

80. The Committees agreed that an oral report giving an account of discussions at the present session would be submitted to the Council. This report was later incorporated in the report of the Council (DPC/40).