

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

RESTRICTED
Spec(94)40
1 November 1994

(94-2288)

International Dairy Arrangement

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

Draft Report of the Fifty-Ninth Session

(19 September 1994)

1. The three Protocol Committees held a joint session on 19 September 1994 to discuss matters relating to the operation of the Protocols.
2. The following agenda was adopted for the joint session:
 - A. Adoption of report on the fifty-eighth session
 - B. Information required by the Committee:
 - (i) Replies to questionnaires:
Questionnaire 1: Certain milk powders
Questionnaire 2: Milk fat
Questionnaire 3: Certain cheeses
 - (ii) Summary tables
 - (iii) Other information
 - C. Transactions other than normal commercial transactions
 - D. Sales under derogations
 - E. Review of the market situation
 - F. Review of the level of minimum prices under Article 3:3(b)
 - G. Monitoring of the Decision to suspend minimum prices for butter and anhydrous milk fat (DPC/PTL/40)

H. Oral report by the Chairman of the Protocol Committees to the Council

I. Dates of next meetings

A. Adoption of report on the fifty-eighth session.

3. The report on the fifty-eighth session was adopted as amended and distributed as document DPC/PTL/44.

B. Information required by the Committees

(i) **Replies to Questionnaires 1, 2 and 3**

4. The Committees reviewed the replies to Questionnaires 1, 2 and 3. Participants were requested to provide all the relevant information concerning the third quarter of 1994 by 9 December 1994.

(ii) **Summary tables**

5. The Committees took note of the summary tables based on information provided up to the first quarter of 1994 in respect of milk powders, milk fat and cheeses issued as documents DPC/PTL/W/143, DPC/PTL/W/144 and DPC/PTL/W/145.

(iii) **Other information**

6. The Committees also took note of the information which the Secretariat had compiled on production, trade, stocks and consumption of dairy products in the United States.

C. Transactions other than normal commercial transactions

7. The representative of the European Communities informed the Committees that food-aid programmes of the EC provided for 50,000 tons of skimmed milk powder and 4,000 tons of butter oil, for 1994, the same quantities as for 1993.

8. The representative of Australia recalled that according to the provisions of the Arrangement participants had the obligation to provide prior notice of such transactions. She added that participants

should ensure that normal commercial transactions should not be displaced by food-aid shipments and that the quantities provided as food aid should not be diverted to third countries.

D. Sales under derogations

9. The Committee of the Protocol Regarding Certain Milk Powders took note of the register of sales made under derogation in accordance with Article 3:5 of the Protocol (document DPC/PTL/W/40/Rev.6).

10. The Committee of the Protocol Regarding Certain Cheeses took note of the register of sales under derogation in accordance with Article 7:2 of the Protocol (document DPC/PTL/W/20/Rev.5). The representative of New Zealand informed the Committee that a notification on sales under derogation totalling 844.8 tons of cheese would soon be transmitted to the Secretariat (document subsequently issued as DPC/PTL/W/147).

E. Review of the market situation

11. Participants gave the following reports on the market situation in their respective countries.

European Communities

12. The representative of the European Communities informed the Committees that the Council of Ministers had concluded their discussions on the 1994/95 price package at their July meeting. The main elements of the agreement were:

- to reduce the intervention price for butter by 1 per cent to ECU 271.80/100 kgs.;
- to maintain the quota level unchanged;
- to reduce the target price for milk by 0.5 per cent to ECU 25.66/100 kgs.; and
- to eliminate public intervention for cheese.

Those decisions were published on 30 July 1994 in the Official Journal.

13. The market situation for milk and dairy products in the European Union continued to be firm with butter prices averaging 96 per cent of the intervention price and skimmed milk powder prices about 3 per cent above the intervention price.

14. Dairy cow numbers in December 1993 were 21.36 million head or about 300,000 head less (- 1.6 per cent) than in December 1992. The very warm weather in July led to important reductions in milk deliveries and consequent reductions in both butter and skimmed milk powder production.

15. The data available for the calendar and quota years up to June 1994 show that milk deliveries were down by 1 per cent while butter and skimmed milk powder production were down by 5 per cent and 7 per cent, respectively. Production in the EC dairy sector in the first six months of calendar year 1994 and in the first three months of quota year 1994/95, compared to the corresponding periods of calendar year 1993 and quota year 1993/94, was as follows:

| | <u>Calendar year</u> <u>January-June 1994</u> January-June 1993 | <u>Quota year</u> <u>April-June 1994</u> April-June 1993 |
|---------------------|---|--|
| Milk deliveries | - 0.7 % | - 0.9 % |
| Production | | |
| Skimmed milk powder | - 5.5 % | - 7.4 % |
| Other milk powders | - 0.6 % | - 4.6 % |
| Butter | - 4.0 % | - 5.3 % |
| Cheese | + 1.4 % | + 1.2 % |

16. In the period January to July 1994, deliveries were estimated to be down by about 1.4 per cent compared to the corresponding period of 1993. The reduction in deliveries helped to firm market prices for skimmed milk powder in particular. The skimmed milk powder price was about ECU 174/100 kgs. compared to the intervention price of ECU 170/100 kgs. and the average butter price was about ECU 261/100 kgs. compared to the intervention price of ECU 272/100 kgs. Prices for certain cheeses have weakened. Demand for fresh products was strong confirming the trend of increasing consumption. Cheese consumption was also continuing to increase.

17. There has been very little intervention buying in the butter sector while a significant quantity of skimmed milk powder was bought in the period 1 March to 31 August 1994. Total butter purchases in 1994 to date amounted to 20,300 tons compared to 28,000 tons in the same period of 1993. Purchases of skimmed milk powder in 1994 to date amounted to 61,000 tons, compared with less than 11,000 tons in 1993.

18. In September 1994, intervention stocks of butter were about 60,000 tons less than in September 1993; there were 10,000 tons less of cheese and about 50,000 tons more of skimmed milk

powder. Public stocks of butter were currently at 96,000 tons and private stocks at 150,000 tons. At present skimmed milk powder stocks were at 89,000 tons and cheese stocks at 118,000 tons.

19. The strong market situation for both butter and skimmed milk powder was influenced by internal disposal measures. Demand for butter for the pastry and ice-cream sector was about 11 per cent higher than in 1993. The aid level was further reduced in June and July by ECU 4/100 kgs. of butter. The total volume of butter allocated to this industry was about 313,000 tons by September 1994.

20. The total volume of subsidized skimmed milk used in the January-July 1994 period was about 2½ per cent below the 1993 corresponding level. The decrease in skimmed milk used for the casein industry was 2.7 per cent while in the animal feed sector it was about 1.6 per cent. About 3,000 tons of skimmed milk powder were sold from intervention stocks for use in the animal feed sector during August and September 1994, at ECU 1/100 kgs. above the intervention price.

21. The European Union's exports of dairy products in 1994 were considerably below the 1993 levels, with the exception of fresh products. The percentage reductions in 1994 were the following:

| | |
|---------------------|--------|
| Skimmed milk powder | - 60 % |
| Whole milk powder | - 12 % |
| Butter | - 55 % |
| Butter oil | - 63 % |
| Cheese | - 6 % |

22. On 29 April 1994, the export refunds on all products, except butter, butter oil and skimmed milk powder had been reduced by 5 per cent. On 1 July 1994, the export refunds on cheese were reduced by a further 5 per cent.

23. The European Union's calculated export prices for the third quarter of 1994 were as follows:

| | <u>US\$ per ton f.o.b.</u> |
|---------------------|----------------------------|
| Skimmed milk powder | 1,700-1,900 |
| Whole milk powder | 1,600-1,750 |
| Butter | 1,400-1,900 |
| Butter oil | 1,700-2,300 |
| Cheese | 1,950-2,100 |

24. The world market for dairy products was strong but the level of trade was not substantial. The volumes being sold under the United States Dairy Export Incentive Program were relatively small,

particularly in the butterfat and cheese sectors. The volume for which bonus bids have been accepted and the allocations for the year were:

| | <u>Bids accepted</u> | <u>Allocation for 1994</u> |
|---------------------|----------------------|----------------------------|
| Milk powders: | | 136,900 |
| Skimmed milk powder | 48,236 | |
| Whole milk powder | 7,030 | |
| Butterfat | 15,968 | 27,450 |
| Cheese | 582 | 5,500 |

25. The representative of the European Union expressed concern about the increase in cow numbers in the Southern Hemisphere. The market was waiting to see how milk production would develop in this region. For butter, price levels in the coming months were expected to be determinant of the future trend. It was hoped that the situation would be more clear in December.

Argentina

26. For the second quarter of 1994, production of skimmed milk powder remained stable at 2,800 tons. Total imports decreased from 2,200 tons in the second quarter of 1993 to 1,040 tons in the second quarter of 1994. Exports decreased also from 2,300 tons to 740 tons.

27. Production of whole milk powder increased from 18,000 tons in the second quarter of 1993 to 18,900 tons in the second quarter of 1994. Imports decreased from 2,400 tons to 2,000 tons and exports decreased also from 1,300 tons to 430 tons. Stocks at the end of the second quarter of 1994, at 6,600 tons, remained stable compared to their level one year earlier.

28. Butter production remained stable at 12,000 tons in the second quarter of 1994 compared to the second quarter of 1993. Imports and exports remained at low levels in that period. Stocks at the end of the second quarter of 1994, at 3,600 tons, remained stable compared to their level one year earlier.

29. Production of cheese in the second quarter of 1994 amounted to 78,500 tons, a decrease by 6 per cent over the corresponding period of 1993. Imports increased from 1,100 tons to 1,600 tons; exports also increased from 1,060 tons to 1,200 tons in the second quarter of 1994. Stocks at the end of the second quarter, at 18,200 tons, remained at the same level as in the previous year.

Australia

30. Australian milk production in 1993/94 reached a record 8,076 million litres (compared with 7,327 million litres for 1992/93), returning to the levels existing prior to the period of sustained structural adjustment. Key factors behind the increase have been the continuation of excellent seasonal conditions, increased use of supplementary feed on farms, and an improvement in underlying farm productivity (mainly via improved genetics and overall management practices). A slight increase in dairy cow numbers (achieved by increased use of supplementary feed and improved grazing management practices) also contributed to the rise in production.

31. Total liquid milk sales are increasing by around 1½ to 2 per cent per annum, with per capita consumption also increasing by around 0.4 to 0.5 per cent annually. In 1993/94, liquid milk consumption increased to 104 litres on a per capita basis. There was a continuing shift towards lower fat content milks, together with increased acceptance of long life milks. Manufacturing milk supply in 1993/94 saw a significant increase of 13 per cent over 1992/93, in line with increased milk production.

32. Based on preliminary statistics, it is anticipated that in 1993/94, total production of skimmed milk powder and buttermilk powder will be approximately 221,100 tons, an increase of almost 24 per cent over 1992/93. Whole milk powder production is expected to increase by more than 16 per cent over the previous year, while butter/anhydrous milk fat production and cheese production are expected to increase almost 13 per cent and over 7 per cent, respectively.

33. With recovery in the Australian economy there has been a return to more normal levels of domestic market demand underpinned by the generally lower levels of price discounting - especially over the latter months of 1993/94. Cheese sales in 1993/94 were up by around 3½ per cent (i.e. 128,000 tons), with most of the increase being in Cheddars and Mozzarella/pizza types. General retail market trends include increased demand for pre-sliced/pre-shredded lines (mainly Cheddars and Mozzarella), increased interest in lower fat lines and improved distribution of specialty lines through traditional supermarket outlets. Non-retail sector demand for cheese has been strengthened via on-going development in the fast food industry, while food ingredient demand for cheese has remained relatively static.

34. Butter/anhydrous milk fat sales in 1993/94 totalled around 53,000 tons - up by almost 3 per cent on 1992/93 levels. The non-retail sector mainly accounted for this increase, being buoyed by increased interest in the "naturalness" of butter compared to oil substitutes. Although total retail tablespread

sales in 1993/94 were slightly lower than 1992/93, sales of dairy based spreads were slightly ahead, due to increased demand for butter/vegetable oil blends.

35. Milk powder sales in Australia remain static. This is unlikely to change in the near future as any new demand is likely to be offset by the gradual shift toward liquid concentrate alternatives.

36. While the severe drought conditions prevailing across much of Australia have not yet extended into dairy areas, there is concern regarding likely 1994/95 milk production. This concern is based on generally well below average rainfall in many key dairy producing areas and the effect that drought in other areas is expected to have on supplementary feed grain. Feed grain prices have already increased significantly, and together with some decline in farmgate milk prices, farmers may reduce use of supplementary feed, with an associated effect on milk output. Milk production in 1994/95 is currently forecast to be around 8,300 million litres, although a detailed review of production will be undertaken in October/November. This estimate recognizes that there is likely to be a further, still modest, increase in the national dairy herd. Domestic sales are expected to continue to improve in line with the improved prospects for the Australian economy. Growth in consumer demand may be limited as manufacturers move away from aggressive pricing policies.

37. International market conditions for the major traded dairy products generally remain favourable. Price increases evidenced in July were maintained in August and early September. The current firmness in market prices indicates an improvement in market fundamentals. Supply and demand appear to be closely matched in the short term, mainly as a result of reduced export availability, particularly from Europe.

38. The international butter and anhydrous milk fat market has firmed in recent months as a result of advantageous circumstances including: current low aggregate levels of United States and European Communities butter stocks (which are around 45 per cent lower than a year ago); falling production in the European Communities; and some increase in consumption in the European Communities and the United States. Prices for butter and anhydrous milk fat are currently in the range of US\$1,150-US\$1,300 and US\$1,500-US\$1,550 per ton, respectively, and have shown a slight improvement since June, despite predictions from some quarters that the twelve-month suspension of IDA minimum prices for these products in May of this year could see prices collapse. EC public stocks are at manageable levels, having fallen by 9.4 per cent during the month of August to around 112,600 tons at the beginning of September. Commercial disappearance of butter has been strong in the United States during 1994 and has not been matched by an increase in production. US public

butter stocks continue to fall and stood at around 53,500 tons in late August. Production of butter in Japan to date for the fiscal year 1994 is down by 25 per cent compared to the same period in 1993 as a result of reduced utilization of milk for manufacturing. Australia is cautiously optimistic that butterfat prices will continue to firm during the remainder of 1994.

39. Skimmed milk powder is currently trading in the range of US\$1,500-US\$1,750 per ton. This is US\$300-US\$550 above the IDA minimum price and represents an increase of around US\$250 per ton at the top end of the market since the June IDA meeting. The increase occurred primarily as a result of lower production in the European Communities and a consequent tightening in European Communities export supplies, together with firmer demand from major buyers. Public stocks of skimmed milk powder in the European Communities and the United States are manageable and stood at around 91,400 tons and 19,800 tons, respectively, at the end of August. The hot, dry summer conditions in Japan saw a significant rise in consumption of drinking milk. This resulted in less milk available for skimmed milk powder production which has declined 15 per cent so far this fiscal year compared to the same period last year. The outlook for the skimmed milk powder market is positive with prices expected to continue to increase during the remainder of 1994. Buttermilk powder prices are currently in the range of US\$1,200-US\$1,300 or US\$100 above the IDA minimum price at the top end of the market.

40. Whole milk powder prices are currently in the range of US\$1,475-US\$1,650 per ton or US\$225-US\$400 above the IDA minimum price. This represents an increase of US\$150 per ton at the top end of the market since June. The fact the whole milk powder prices are lower than skimmed milk powder prices reflects the lower value of fat relative to protein. Future demand prospects for whole milk powder are mixed. Algeria and the former Soviet Union, former key markets for whole milk powder, still have internal economic difficulties. Counteracting these difficulties is the possibility that there will be continued demand in Asian and Latin American countries. On balance, it can reasonably be expected that whole milk powder prices will rise as skimmed milk powder prices continue to improve.

41. Cheese prices remain generally steady, even though demand in the major export market, Japan, has been sluggish. Recent information suggests that Japanese imports of cheese are now on the increase. Cumulative Japanese cheese imports in the first seven months of 1994 stood at just under 76,000 tons, marginally above 1993 levels. Bulk Cheddar is currently trading in the range of US\$1,650-US\$1,850 per ton or between US\$150-US\$350 above the IDA minimum price. This price range represents a decline of US\$50 per ton at the top end of the market. EC cheese production of 3 million tons for the January-July 1994 period increased by 2.2 per cent compared to the same period in 1993. US cheese production of 1.5 million tons in the first half of 1994 was 2 per cent higher than

the same period in 1993. Demand from Asian markets has been steadily increasing in line with a gradual increase in per capita consumption and greater willingness to embrace Western style foods. The overall prospects for international cheese prices remain firm with commercial demand expected to be maintained throughout the remainder of 1994.

Bulgaria

42. The figures for production, export and import of dairy products in the second quarter of 1994 were at levels similar to those reached for the same period in 1992 and 1993. This means that the recent negative developments and trends in this sector of the Bulgarian economy are now relatively slow, and the opportunity for a rapid recovery is possible.

43. Production of skimmed milk powder was insignificant and the production of whole milk powder during the second quarter of 1994 was about 300 metric tons, which was the level of production in the previous quarters. There were about 800 metric tons of imports of skimmed milk powder, mainly from the Russian Federation, Ukraine and the Netherlands. About 100 metric tons of skimmed milk powder were exported to the former Yugoslav Republic of Macedonia. Imports of whole milk powder were at the level of 400 metric tons, from the Russian Federation and Ukraine, and exports were of 100 metric tons directed to Albania. There was no production or exports of buttermilk powder, only insignificant quantities of imports from Ukraine and Belgium.

44. Butter production was still at a low level of 600 metric tons. Imports of butter were 1,400 metric tons, mainly from Greece, France, the Czech Republic and Finland. Exports of butter were close to zero.

45. There is an expectation of a better future for the dairy sector of the Bulgarian economy. The production and export of cheeses showed certain positive trends in the revival of this sector. In the second quarter of 1994, the production of cheeses was at the level of 14,000 metric tons. This was double the level for the first quarter of 1994 but still lower than the level of production in the second quarter of 1993, which was about 23,800 metric tons. Imports were close to 200 metric tons from Estonia, France, Denmark, Poland and Germany, the same as in the second quarter of 1993.

Hungary

46. Skimmed milk powder production decreased by 31 per cent to 1,100 tons in the second quarter of 1994 as compared to the same period in 1993. Total domestic consumption also declined to 800 tons. No imports nor exports took place between April and June 1994. Stocks of skimmed milk powder increased to 400 tons at the end of the period. Whole milk powder production was also well below the production of a year earlier (i.e. 1,600 tons). Consumption increased by 50 per cent to 1,500 tons. There was no trade in whole milk powder and stocks were almost at the same level at the end of the period as they were one year before.

47. Butter production increased to 3,600 tons after a significant drop in the first quarter, while exports fell to zero. In the second quarter of 1993, however, Hungary exported 1,900 tons of butter. No imports took place in the second quarter of 1994. The declining trend of butter consumption continued. Cheaper local and imported margarine is a major substitute to butter; therefore, some further moderate decline in butter consumption is foreseen. Imports were at 100 tons, or the same level as a year earlier, while exports dropped significantly to 400 tons, from 1,900 tons in the same period in 1993. As a result of increased production and the decline in local consumption and exports, butter stocks increased from 800 to 1,000 metric tons compared to the second quarter of the previous year. Average export prices of butter (in US\$/metric tons f.o.b.) were US\$1,514 in May, US\$1,428 in June and US\$1,483 in July 1994.

48. For cheese, according to preliminary data, production had significantly increased in the second quarter of 1994 to 1,600 tons from 900 tons in the first quarter, however it was still far lower than the production a year earlier, which was 2,100 tons. Total domestic consumption also further increased by 50 per cent to 1,500 tons compared to the second quarter of the previous year.

Japan

49. Overall demand for dairy products, especially butter, has stagnated as a result of the economic slowdown and other factors. Stocks of butter have reached the equivalent of 7.2 months' consumption. The milk producers organization, in an effort to deal with the situation and reduce milk production, has set lower dairy production targets for the 1994 fiscal year than for the 1993 fiscal year. Total milk production fell by 2.3 per cent in the first quarter of 1994 compared with the same period of 1993. As a result of favourable climatic conditions, demand for liquid milk rose 2½ per cent over the same period of the preceding year. At the same time, demand for milk for dairy products fell

by 10.2 per cent. Consequently, the production of butter and powdered milk also dropped sharply (butter by 25.3 per cent and powdered milk by 14.2 per cent, again compared to the same period of last year). Demand for cheese continued to rise and its production increased by 5.8 per cent over the same period of last year.

50. In the second quarter of 1994, powdered milk imports rose by 24.1 per cent to reach a total of 23,676 tons in comparison with the same period of the preceding year. The increase was especially important in terms of imports intended for animal feed. The average price of powdered milk imports for human consumption has fallen sharply since the second quarter of 1994 (a decrease of 11.3 per cent). However there has been little change with regard to animal feed (down 0.2 per cent). Compared with the same period last year, the average price of powdered milk imports both for human and animal consumption has fallen considerably (down 13.1 per cent for powdered milk for human consumption and 24½ per cent for animal consumption).

51. The quantity of butter imported in the second quarter of 1994 decreased by 3.9 per cent compared with the same period of 1993 (a total of 650 tons). The price of butter imports apparently bottomed out in the last quarter of 1993. However, there was a 4.1 per cent fall in the average import price in the second quarter of 1994 compared with the first quarter.

52. Compared with the same period of last year, natural cheese imports fell by 6½ per cent in the first quarter of this year while processed cheese imports remained stable. Compared with the previous quarter, there was a 3.4 per cent rise in the price of natural cheese imports, whereas that of processed cheese increased only 0.7 per cent. Compared to the same period of last year, the price of natural cheese imports has remained stable, with an increase of 1.6 per cent, whereas processed cheese has seen a 14 per cent rise.

New Zealand

53. The milk flow forecast for the 1994/95 season is 739.5 million kgs. milk solids. This compares with 735.3 million kgs. milk solids in 1993/94. The production forecast indicates an increase of 0.6 per cent from the previous season. Early calving was probably the major contributing factor to early season milk production being in advance of last season; for example, some daily milk flows were approximately two days ahead when compared with the 1993/94 season. This gain is likely to continue through September. However, there are some factors off-setting increased production including lower pasture cover compared to the same time last year, wet conditions which have caused pasture

damage resulting in poor pasture growth, and limited amounts of nitrogen available. On balance, expectations are for production to be only slightly larger than in 1993/94. However, it is still early in the season and due to seasonal variability much is dependent on pasture and weather conditions through the peak period. Good conditions from October through December would mean an increase above these predicted levels. On the other hand, the summer might be long and dry due to the forecasted "El Nino" effect, resulting in significantly declining milk flows early in the new year.

54. Due to a weaker market situation earlier in the season, the milk solids value set in advance by the New Zealand Dairy Board for the 1994/95 season was \$NZ 2.40/kg. milk solids (\$NZ 4.18/kg. milk fat). Given firmer market expectations, the value is likely to rise to between \$NZ 2.70 and \$NZ 2.90 for the end of the season. This is on a par with the levels achieved in the 1993/94 season.

55. The outlook depends largely on the continued healthy balance of the dairy markets in the Northern Hemisphere. Government stocks of butter and skimmed milk powder are modest and are being successfully contained by internal consumption and assistance programmes. A high level of export activity from Southern Hemisphere producers is expected to continue. Most of the extra production will be destined for butter and skimmed milk powder manufacture although there will be a keen desire to also expand output of cheese, whole milk powder and other products to match growing demand. Pressure to increase export sales can be expected and accordingly strong price competition will accompany such activity in 1994/95.

56. Demand conditions in 1994/95 are much more uncertain than are competitor supply positions. Notwithstanding the success of sales made during the previous year, the outlook for the Russian butter market remains problematic. Regional weaknesses in the Middle Eastern and North African markets also look set to persist. Should problems arise in these markets of major importance, the consequences for prices and returns obviously would be serious. Thus, the market outlook is positive yet could prove volatile.

57. In terms of the tenor and trend of prices, the market has continued to improve through the second and third quarters. This is especially the case for skimmed milk powder. The main exception is cheese, where some short-term supply factors have combined in a way which has delayed price improvements; however, more recently prices have firmed. Prices for butter and butter oil have remained stable, albeit aided by the paucity of market activity.

58. Underpinning the better conditions is the steady, balanced state of Northern Hemisphere dairy product markets and the early season position in both New Zealand and Australia. Though activity generally has been light, partly because the Northern Hemisphere summer season has only just past, there are little or no surpluses such that prices (with the exception of cheese) have held firm. The generally firm tone of the market was confirmed when prices for butter held steady after the European intervention price was cut in July and again in August. In recent previous years, market prices for butter have closely shadowed the intervention price floor. Currency conditions have been more stable since July, a significant factor underpinning the firm market tone. European currencies have stayed persistently strong relative to the weak US dollar, which has kept European prices up. New season supply from New Zealand and Australia has not yet put any serious pressure on the market. There seems to be greater acceptance of a firmer market outlook with New Zealand and Australia positioning themselves accordingly for the onset of new demand.

59. The indicative export prices in the third quarter of 1994 were as follows:

| | <u>US\$ per ton, f.o.b.</u> |
|---------------------|-----------------------------|
| Skimmed milk powder | 1,550-1,700 |
| Whole milk powder | 1,500-1,600 |
| Butter | 1,250-1,450 |
| Butter oil | 1,450-1,650 |
| Cheese | 1,800-2,000 |

60. The price outlook is for modest improvement. For the immediate future a great deal will depend on the competitive interaction between exporters. Major risks remain given uncertainty in key markets. Moreover, for New Zealand, a deterioration in terms of trade may occur given the strengthening currency.

Poland

61. There has been a steady decrease in cow population in Poland since 1990, and this trend continued in 1994. The decrease, as compared with the second quarter of 1993, was of 4 per cent. As a result there was a declining trend in milk production and procurement. It is estimated that milk production in Poland will total 12 billion litres in 1994. The decrease in milk procurement varied according to the region, with a higher rate of decrease in western voivodships and a smaller one in north-eastern areas.

62. The production of dairy products followed changes in domestic demand. This phenomenon was confirmed on the dairy market in the second quarter of 1994, when there was a substantial increase in the production of Cheddar cheese (some 20 per cent) as compared with the same period of last year. Whole milk powder production was the same as in the second quarter of 1993. Production of skimmed milk powder dropped by 24 per cent and that of butter by 14 per cent.

63. There was an increase in exports of Cheddar cheese as compared with the second quarter of 1993. A decrease in imports of butter and Cheddar cheese was reported. Dairy stocks presented no problems.

64. Average export prices in the second quarter of 1994 were as follows:

| | <u>US\$ per ton, f.o.b.</u> |
|---------------------|-----------------------------|
| Skimmed milk powder | 1,276 |
| Whole milk powder | 1,360 |
| Butter | 1,372 |
| Cheese | 2,179 |
| Casein | 3,229 |

There was a decrease in butter prices and a substantial decrease in skimmed milk powder prices as compared with the corresponding period of 1993.

Romania

65. The difficulties encountered in the period of transition have given rise to problems in data collection; only partial statistical information is available for the second quarter of 1994. This data reflects the same trend registered by the domestic economy in general, i.e. a relative stabilization of the production. However, a slight increase in the production of all dairy products was registered in the first and second quarters of 1994. Stocks at the end of the second quarter of 1994 increased for all dairy products.

66. Imports of dairy products increased slightly in the second quarter, but they still remained very small. Exports were insignificant and some export restriction measures have been maintained for butter. Consequently, an increase in domestic consumption has been registered.

South Africa

67. South Africa had experienced the coldest winter for several years. This aggravated the normal seasonal trend of fall-off in dairy production. In fact, production figures for all dairy products were lower in the second quarter of 1994 than during the corresponding quarter of 1993. The return to more normal consumption levels of skimmed milk powder in the first six months of 1994, coupled with high exports of skimmed milk powder (some 6,500 tons) in the second quarter of 1994, led to the lowest level of skimmed milk powder stocks for several years, i.e. at the end of the second quarter stocks had declined to 1,500 tons compared to 6,500 tons a year earlier. Apart from the exports of skimmed milk powder in the second quarter of 1994, there had been no other significant trade development in South Africa.

Finland

68. The summer of 1994 was exceptionally hot in Finland, however no significant droughts were reported. The weather conditions were rather favourable for crop production. This may have an effect on the amount of milk production during the coming winter season. Milk deliveries during April-June 1994 were 2.1 per cent higher than in the corresponding period of 1993. Total production during 1994 is expected to increase by 1.4 per cent to 2,295 million litres.

69. Skimmed milk powder production increased by 1.3 per cent in the second quarter of 1994 to 5,300 tons. Exports in that period were 100 tons and stocks in June 1994 were 5,400 tons. Total production for 1994 is estimated to reach 16,000 tons, consumption 12,000 tons and exports 1,000 tons. Whole milk powder production was 50 tons in April-June 1994 and exports were nil. Production is expected to total 700 tons, consumption 600 tons, in 1994. Exports should be nil. Stocks in June were 300 tons.

70. Butter production in April-June 1994 was 10.3 per cent higher than in the corresponding period of 1993. The estimate for the whole year of 1994 is 60,000 tons, an increase by 6.4 per cent over 1993. Butter consumption in the second quarter of 1994 decreased by 9½ per cent. The estimate of consumption for the whole year is 39,000 tons, a decrease by 1.3 per cent from 1993. Finland exported 15,500 tons of butter in the period January to June 1994 and expects to export 20,000 tons by the end of the year. Butter stocks in June were 3,300 tons. Export prices of butter were US\$1,170 per ton in July and US\$1,180 per ton in August 1994. Export prices of butter oil averaged US\$1,730 per ton in July 1994.

71. Cheese production increased by 1.4 per cent in the second quarter of 1994 to 22,700 tons. The estimate for the whole year of 1994 is 90,000 tons. Consumption in April-June 1994 was 2.2 per cent higher than in the corresponding quarter of 1993. Consumption in 1994 is expected to amount to 71,000 tons. Exports in April-June 1994 increased by 12 per cent to 6,000 tons and are expected to amount to 25,000 tons for the full year 1994. Stocks in June were 9,900 tons. Export prices in the third quarter were around US\$3,000 per ton.

Norway

72. The 1994 Agricultural Agreement between the Norwegian Farmers Union, the Union of Norwegian Farmers and Smallholders and the Government reduced the producer price of cow's milk by NKr 0.16/litre. The main reason was to moderate the production pressure. Furthermore, base deficiency payments, regional deficiency payments and structural income support for milk production were reduced. The price of feed grain was reduced by NKr 0.16/kg.

73. The production ceiling remained unchanged at 1,740 million litres. Recent years' reduction of the production ceiling has been carried out by reducing each producer's milk quota. As a result, the average milk quota in 1994 is 15 per cent lower compared to 1983. Now, the Government is considering regional sales of milk quotas to stimulate more efficient production and to stabilize the economies of the main milk producing farms. It is expected that milk deliveries in 1994 will amount to 1,750 million litres.

74. Production of skimmed milk powder was down by 800 tons to 3,900 tons in the first half of 1994. Consumption of skimmed milk powder was down by 400 tons to 3,700 tons. There were no substantial exports or imports of skimmed milk powder in the first six months of 1994. Production and domestic consumption of whole milk powder was 900 tons and 600 tons, respectively, in the first six months of 1994. There was no foreign trade in whole milk powder in that period.

75. In the first six months of 1994, butter production was 8,000 tons, which is a decrease by 13 per cent compared to the first half of 1993. Consumption was down by 200 tons and amounted to 4,200 tons. There were no imports of butter in the first half of 1994, while exports amounted to 2,700 tons. This is a reduction in butter exports of 26 per cent compared to 1993. Most of the butter was exported to North African countries. During 1994, the export price has been stable at US\$1,350/ton at the reference points. Norway has not experienced any pressure on the butter price after the suspension in May 1994. It is expected that butter exports will amount to 4,300 tons in 1994.

76. Production of cheese amounted to 43,700 tons in the first six months of 1994, a decrease over the corresponding half of 1993. Domestic consumption rose by 1.4 per cent in that period. Imports at 1,080 tons were down by 90 tons. Exports fell approximately 11 per cent to 11,400 tons. The export destinations were mainly the European Communities, Japan, Australia, Canada, the United States, Sweden and Mexico. It is expected that exports will amount to 19,000 tons in 1994.

Sweden

77. Deliveries to dairies increased by almost 2 per cent in the first seven months of 1994 compared to the corresponding period of 1993. Total deliveries to dairies in this period amounted to 1,998 million kgs. Dairy cow numbers are declining. According to preliminary information dairy cow numbers in June 1994 were 510,000 head or 3 per cent lower than in June last year. As a result of last year's bad weather, farmers bought fodder of higher quality, which resulted in higher yields. For the full year of 1994, deliveries are forecast to increase by approximately 1.9 per cent.

78. Production of skimmed milk powder is declining in Sweden. During the first two quarters of 1994 production decreased by 16 per cent to 20,300 tons. Foreign trade figures are not yet available for the second quarter, but in the first quarter exports were at the same level as last year. Stocks at end of June 1994 were at a rather low level, 3,800 tons compared to 4,200 tons at the end of the same quarter of 1993. Average export prices in early September 1994 were US\$1,630 per ton f.o.b.

79. A switch from production of butter to production of cheese is now noticeable in Sweden. This has resulted in decreased butter production. In the first six months of 1994, butter production decreased by 29 per cent to 16,400 tons. During the same months domestic consumption of butter increased. Total domestic consumption of butter in the first six months of 1994 amounted to 9,500 tons, 8 per cent more than in the same months of 1993. Preliminary information indicates that butter trade continued to decline also in the beginning of 1994. As present only small quantities are exported. Total exports of butter in 1994 are forecast at 9,000 tons. Butter stocks at the end of second quarter of 1994 were 4,100 tons or about half the quantity at the end of the same quarter of 1993. Average export prices in early September 1994 were about US\$1,440 per ton f.o.b. However, only small quantities were exported.

80. Cheese production, which increased by 7 per cent in 1993, continued to increase also in the first six months of 1994. The increase in this period was 12 per cent and total production amounted to 67,200 tons. In 1993, domestic consumption of cheese increased by 9 per cent. No figures are

yet available for the first two quarters of 1994 but the increase seems to have continued. As concerns foreign trade during the second quarter, no figures are yet available. Stocks at the end of second quarter of 1994 were 44,500 tons, about 13 per cent above the stock level at the end of the same quarter of 1993.

Switzerland

81. In the first eight months of 1994, milk deliveries totalled 2,116 million tons, an increase of 5.7 per cent compared with the corresponding months of 1993.

82. Production of skimmed milk powder in the second quarter of 1994 increased by 14 per cent to 10,000 tons, compared to 8,800 tons in the second quarter of 1993. Consumption increased to 9,700 tons in this period compared to 4,900 tons consumed in the second quarter of 1993. Exports were nil and stocks were reduced at the end of the second quarter of 1994.

83. Production of butter in the second quarter of 1994 increased by 22 per cent to 12,200 tons, compared to 10,000 tons in the second quarter of 1993. Consumption increased to 10,300 tons in this period compared to 9,100 tons consumed in the second quarter of 1993. Imports remained negligible. Stocks at the end of the second quarter increased to 7,300 tons compared to their level of 6,400 tons a year earlier.

84. Cheese production increased by 1½ per cent in the second quarter of 1994 to 37,600 tons compared to 37,100 tons in the second quarter of 1993. Consumption increased to 30,400 tons in this period compared to 28,100 tons consumed in the second quarter of 1993. Exports decreased by 7 per cent to 13,000 tons. Imports increased by 4 per cent to 7,700 tons. Stocks at the end of the second quarter, at 28,900 tons, were 11 per cent higher than their level one year earlier.

Uruguay

85. For the first quarter of 1994, exports of skimmed milk powder amounted to 420 tons, the destinations being Argentina and Brazil. Export prices ranged between US\$1,750 and US\$1,830 per ton f.o.b. Stocks at the end of the first quarter of 1994, at 4,900 tons, were unchanged compared to their level at the beginning of the quarter.

86. Production of whole milk powder in the first quarter of 1994 amounted to 2,290 tons, the same as in the corresponding quarter of 1993. Exports amounted to 1,380 tons and were destined to Brazil and Peru. Export prices ranged between US\$1,770 and US\$1,880 per ton f.o.b.

87. Production of butter in the first quarter of 1994, at 1,770 tons, was unchanged compared to the first quarter of 1993. Exports amounted to 1,080 tons and were destined to Brazil, Chile, Mexico, Bolivia and Paraguay. Export prices ranged between US\$1,300 and US\$1,560 per ton f.o.b.

88. Production of cheeses amounted to 4,430 tons in the first quarter of 1994. Exports were at 1,790 tons and were destined to Argentina, Brazil, Mexico, South Africa, the United States and Spain. Export prices ranged between US\$2,470 and US\$5,580 per ton f.o.b.

Brazil

89. The Brazilian dairy sector has been thoroughly reshaped during the past few years, with noticeable consequences on its performance and its participation in the international markets. Milk production has remarkably increased (Brazil is now among the world's ten largest producers) and imports, from very limited and incidental in the past, have now become regular and rather significant in volume. The evolution observed in this sector should be credited to the broader economic transformations which took place in the country as a whole, more specifically as a consequence of the "Cruzado Plan" in 1986 and of the other stabilization plans that followed. These have engendered alternate periods of economic and financial adjustment and disorder, with direct impact on the dairy sector. It was, however, during the 1990s, when the Brazilian economy has been consistently deregulated, that the most deeply felt transformations took place.

90. Aware of these new patterns, Brazil had decided to join the International Dairy Arrangement and thus to take part in its decision making process, as well as in receiving and providing the information that circulates among its members.

91. Brazilian milk production increased by 41.2 per cent in the period 1980/1992, not as much a result of higher productivity, but mainly as a natural consequence of geographical expansion of cattle herding, which spread toward the centre-west areas of the country, where it serves the dual purpose of milk and meat production. Productivity improvements were limited to the traditional milk production areas located in the south-eastern and southern areas of Brazil. During the same span of time, the

Brazilian population increased by 25.8 per cent and kept its tendency to move towards the urban centres, which currently concentrate 77 per cent of the total population of 149 million.

92. Statistics for 1993 are not yet available, but an increase by 2 per cent in milk production is expected (16.1 million tons), a sharp contrast with the almost 5 per cent recorded in 1992 in relation to 1991 (15.7 million tons). The volume of milk sold by producers to the milk processing sector fell by 6.3 per cent in 1993, generating a decline in dairy products output, with the exception of the cheese sector, which increased its production over 1992 levels by 6 per cent. The weak performance of the dairy sector in 1993 as compared to the previous year is mainly due to a decrease in overall demand throughout the economy, resulting from Brazil's economic difficulties. In 1993, for example, inflation reached 2,700 per cent, with a monthly average of 32 per cent. It also coincided with a lack of stimulus; since 1992 milk production had exceeded demand and could not be entirely sold in the internal market.

93. Forecasts for 1994 indicate a production recovery of some 4 per cent. These are preliminary estimates, however, and must be considered with caution, since the damage caused by last winter's frosts in the south-eastern and southern areas can only be assessed when the production season begins in October. Output of dairy products is expected to reach at least 1992 levels. This optimistic prognosis is based on the positive results of the current stabilization plan, the "Plano Real", which brought about a more favourable environment for production and industrialization, after a period during which financial operations were more profitable than actual production activities due to the prevailing high inflation rates.

94. Brazilian imports of dairy products have historically been under 300,000 tons (in milk equivalent) until the beginning of the eighties, when they started to increase and reached the record level of 2.3 million tons in 1986, an ephemeral consequence of the "Cruzado Plan" launched that same year. Brazilian imports thereafter have become regular, at around 900,000 tons a year.

95. In 1993, Brazil imported slightly more than 800,000 tons in milk equivalent and 1994 imports are estimated at 600,000 tons, a decrease due to the stabilization plan. Dairy imports - mainly milk powder and butter or butter oil - are mostly used to supplement the internal offer of milk being sold in liquid form. To help boost national production, the Government decided in August 1994 to raise import tariffs on milk powder and on long life milk from 20 to 35 per cent.

96. For the entire agricultural sector, and for the dairy sector in particular, Brazil keeps under close surveillance the ever present danger of internalizing foreign subsidies through importation. This

principle has pervaded all Brazilian multilateral negotiations, not only within the GATT, but also with its MERCOSUL partners. On 1 January 1995, MERCOSUL's Common External Tariff (TEC) will enter into force at a level no higher than 20 per cent. The four partners in the Agreement are now, however, in the process of establishing a list of products identified as particularly "sensitive" which will be kept under tariff protection until the year 2001. This list includes such products as computers and petroleum related chemicals, as well as agricultural products, and among these, some dairy products.

97. Since no reliable data on consumption itself is available, internal offer (production plus imports) is used to measure apparent milk consumption in Brazil. Based on these data, consumption is estimated at 100 kgs./per capita/per year. Although this is below FAO's recommended minimum consumption of 146 kgs./per capita/per year, it can be considered a satisfactory average compared to the average of 36 kgs./per capita/per year found in some developing countries.

98. Social disparities and regional imbalances must be taken into consideration when assessing these statistical data. For example, milk and sophisticated milk products are consumed at developed country levels in some south-eastern and southern areas of Brazil, but in others they are restricted to levels equal or below developing countries' averages.

99. In 1994, and in the years ahead, consumption is expected to rise, mainly due to economic stability, increasing urban concentration and elimination of some of the country's problems. It should be noted that, in 1986 during the "Cruzado Plan", a real income increase occurred, which led to a consumption spree, thus proving the remarkable income related elasticity of dairy products.

100. Milk prices at both production and consumption levels were rigidly established by the Government for over forty years in Brazil. Dairy products were also placed from time to time under some sort or another of Government intervention, ranging from mere surveillance to total control, depending on the product, the occasion and the necessity felt by the authorities to curb inflation.

101. Price deregulation started in 1990. Along with the economy as a whole, dairy products were gradually liberated from Government rule, a process that culminated in November 1991 by the suppression of price controls on pasteurized milk. Henceforth no price control of any nature on dairy products has been practised in Brazil. Recently, for the "Plano Real" purposes, the Government resumed some price monitoring practices in order to make sure abuses would not occur when conversion from cruzeiro to real took place, but no actual intervention was needed.

102. Between 1986 and 1990, the price at the production level was US\$0.17/litre all over the country, with the exception of the north-eastern area, where higher production costs were taken into consideration. In 1990, the Government established price was increased slightly to US\$0.21/litre, but prices could not be maintained at that level after price controls were lifted. From then on, the average has moved to around US\$0.18/litre in the south-eastern States. These figures must be examined with caution, since both in the traditional and in the new producing areas, prices fluctuate according to the harvest season, within a range that can reach 50 per cent which entails obvious consequences on final product prices. Even in the traditional producing areas, prices can vary up to 15 per cent depending on the season.

103. In 1994, the average price until last June in the south-eastern States reached US\$0.17/litre. From the outset of the "Plano Real", however, predictions for the rest of the year have become guess work, aggravated by last winter's frosts. In the medium term, price trends should be on the increase, due on one side to economic stabilization and higher per capita income and, on the other, to the inability of the still inefficient dairy production sector to respond to a heated demand.

Canada

104. As of the beginning of dairy year 1994/95, on 1 August 1994, the production quota for industrial milk has been increased by 2 per cent to 43.7 million hectolitres. This decision was taken as a result of a review of the market at the end of July 1994. This review showed that production of industrial milk and stocks of butter and cheese at the end of the 1993/94 dairy year were lower than had been forecast. In addition, consumption during the latter part of the 1993/94 dairy year had been higher than expected for butter and cheese. This latter trend regarding consumption is now forecast to continue into the present 1994/95 dairy year. The lower production for industrial milk at the end of the 1993/94 dairy year was due to adverse weather conditions in certain producing areas.

FAO

105. FAO forecasts world output of milk from cows and other livestock to be 516 million tons in 1994, an increase of 1 million tons over the previous year. Growth in several regions including North America, Oceania, Latin America and Asia is expected to be counterbalanced to a degree by lower production in Europe and some countries of the former Soviet Union.

106. Developing countries' production is forecast to rise by 2 per cent, growing from 177 million tons in 1993 to 181 million tons in 1994. This would represent 34 per cent of world output and compares with a 30 per cent share five years ago.

107. Among developing countries, Asia is anticipated to continue to show the strongest growth and production is expected to rise by 3 per cent. In India, the largest producer among developing countries, a 3 to 4 per cent expansion in output is anticipated, assisted by good pasture conditions and fodder supplies: half of Indian milk production comes from buffaloes. In the Philippines, production may show some growth in 1994, following a large-scale government programme to increase domestic supplies of livestock products. Growth in output is also anticipated in the Republic of Korea due to an increase in the size of the dairy herd and improved yields. In China, a second year of high feed prices is expected to result in little growth in output; however, as there has been only limited evidence of herd reduction, production could pick up in 1995 should feed prices drop.

108. Further expansion is also forecast for Latin America, where production could rise by 2 per cent to reach 46 million tons. Production growth is expected to be assisted by generally favourable weather conditions and in some cases, a relaxing of government controls. Increased output is expected for several countries including Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Honduras, Mexico, Peru and Uruguay. After showing some signs of recovery in 1993, Venezuela's output is expected to be lower as prices for milk fixed by the government are proving a disincentive to production: the size of the national dairy herd dropped in 1994 and a further decline is foreseen for 1995. Output in Guatemala is also expected to decline.

109. In African developing countries, aggregate production may show some increase over its 1993 level of 12 million tons. This would be primarily due to generally favourable weather conditions so far this year for pasture and feed crop growth.

110. In terms of trade, developing countries will remain as a whole net importers of dairy products. Some major importers, such as Algeria and Mexico, have already made large purchases of dairy products during 1994. In many developing countries, imports are associated with government-operated feeding programmes for low-income groups. In some countries, such as Brazil and Venezuela, budgetary constraints have forced cut backs in such programmes.

111. India, which for many years has been amongst the major recipients of food aid in dairy products in support of its "Operation Flood" project, now appears to have achieved self-sufficiency. In past

years India has exported dairy products on a small scale. In 1993, the liberalizing of restrictions on the export of dairy products led to a substantial increase in exports, estimated from 7,000 tons to 15,000 tons. Subsequently, a restriction of 25,000 tons has been placed on the export of milk powder and infant formula for the 1994/95 financial year (March/April).

112. In 1993, several countries of the former Soviet Union effected small exports of dairy products, in particular Russia and Lithuania.

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

113. The Committees reviewed the minimum export prices for milk powders and cheeses on the basis of criteria established by the Arrangement. There was no decision to change the minimum price levels.

G. Monitoring of the Decision to suspend minimum prices for butter and anhydrous milk fat (DPC/PTL/40)

114. As of 4 May 1994, the Committee of the Protocol Regarding Milk Fat decided to suspend the minimum export prices for butter and anhydrous milk fat for a period of up to twelve months. In taking this Decision the Committee agreed to keep the level of world market prices under regular review, based on analyses by the Secretariat. Participants agreed to provide to the Secretariat, every two months, the most recent information available to them on their export sales of butter and anhydrous milk fat. The Committee took note of the document prepared by the Secretariat on the basis of information furnished by participants for the period May-June 1994 and July-August 1994 (DPC/PTL/W/146). This document will be revised as new information becomes available.

H. Oral report by the Chairman of the Protocol Committees to the Council

115. The Committees agreed that an oral report of the discussions of the present session would be submitted to the Council. This report was incorporated in the report of the Council (DPC/45).

I. Dates of next meetings

116. The next regular sessions of the Committees will be held on 12 and 13 December 1994, subject to confirmation by the Secretariat.