Introduction

1. The three Protocol Committees held a joint session on 21-22 March 1988 to deal with certain matters concerning the working of the three Protocols. The report of this joint meeting is being incorporated in the report of the meeting of the Committee of the Protocol Regarding Milk Fat. The reports of the Committee of the Protocol Regarding Certain Cheeses and of the Committee of the Protocol Regarding Certain Milk Powders contain cross-references to what is included in this report with respect to the joint meeting.

Adoption of the agenda

2. The Committees adopted the following agenda:

   A. Election of the Chairman and Vice-Chairman

   B. Adoption of report on thirty-second session

   C. Information required by the Committee:

      (i) Replies to questionnaires (respectively

      Questionnaire 2: Milk Fat
      Questionnaire 3: Certain Cheeses and
      Questionnaire 1: Certain Milk Powders)
(ii) Summary tables
(iii) Other information

D. Transactions other than normal commercial transactions

E. Sales under derogations

F. Review of the market situation for products covered by the Protocol

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

H. Improvement of working methods

I. Oral report to the Council

J. Date of next meeting

Election of the Chairman and Vice-Chairman

3. The Committees re-elected Mr. P. Huhtaniemi (Finland) as Chairman for 1988/89; no Vice-Chairman was elected.

Adoption of reports on the thirty-second session

4. The reports of the thirty-second sessions were adopted with certain amendments by the three Protocol Committees and distributed as documents DPC/F/54, DPC/C/50 and DPC/P/52 respectively.

Information required by the Committees

(a) Replies to Questionnaires 2, 3 and 1

5. The Committees reviewed the replies to Questionnaires 1 to 3 and requested participants who had not yet communicated such information in respect of the fourth quarter of 1987 to do so without further delay. They
were also requested to submit information regarding the first quarter of 1988 by 15 June 1988 at the latest.

(b) **Summary tables**

6. The Committees reviewed the summary tables based on information provided by participants in Tables A and B of the questionnaires in respect of the third quarter of 1987 and issued respectively in documents DPC/F/W/36, DPC/C/W/35 and DPC/P/W/34.

(c) **Other information**

7. The Committees took note of the statistical information which the secretariat had compiled on production, trade (including food aid), stocks and consumption of dairy products in the United States. Data related to the fourth quarter of 1987 and also gave forecasts for the first quarter of 1988.

8. The Committees were also informed that no significant sales had been made under the United States new Dairy Export Incentive Program, except a shipment of 10,000 tons of skimmed milk powder. The secretariat was closely following the program and would keep the Committees informed of any future sales.

**Review of the market situation for products covered by the Protocols**

9. Commending the secretariat's status report (DPC/W/76), the spokesman of the Community underlined one of its main findings that world milk production in 1987 had fallen by 1 per cent, which was in keeping with the process initiated in the Uruguay Round of bringing a better balance between world supply and demand. The EC was, in particular, confronted with the acute problems of excessive supplies and critical stock levels of certain agricultural products, which it began to tackle in earnest in the wake of the Punta del Este Declaration. According to the OECD report, the EC had made a tremendous effort in regard to a reduction in the production of
dairy products. It was regrettable, however, that other countries had not made similar efforts. Of the total drop in milk production shown by the OECD countries in 1987, 84 per cent was accounted for by the EC countries as a result of stringent control measures adopted. Other significant producers like the United States, Canada, Australia and New Zealand had continued to increase their production levels. Certain European countries such as Switzerland, the Nordics and Japan had also cut down their production levels, but not to the same extent as the Community had done. The Community was, therefore, not prepared to accept a situation in which others continued to increase their production while it drastically reduced its own. It was imperative that each country would accept a supply discipline and would provide more concrete evidence in support of the measures adopted. In addition, each country should be in a position, once a year, to provide an update on the number of cows and the yield per cow. On its part, the EC would be prepared to provide such details.

10. The representative of Australia, while being in agreement with the EC that the issue of the Uruguay Round was of paramount importance, expressed his doubt whether this subject could be appropriately discussed in the Protocol Committees. One of the objectives of the Punta del Este Declaration was to achieve greater liberalization of trade in agriculture, which did not necessarily mean market or burden sharing. There was a persistent confusion between symptoms and causes, which he could not accept. Australia had liberalized the dairy sector in line with governments' view that market distortions and problems in agricultural trade could only be solved by a general liberalization of trade.

11. The technical expert of the EC told the Committees that the number of dairy cows had fallen by 3.9 million or by 14 per cent between December 1983 and December 1987. A further reduction of 1 million head or 4 per cent was anticipated for 1988. Milk deliveries in 1987 at 95.7 million tons were 5.4 per cent lower than in 1986. A further reduction of 2 to 3 per cent was expected in 1988.
12. Butter production, estimated at 1.8 million tons in 1987, was 14 per cent lower than in 1986 and was expected to drop further by 6 per cent in 1988. Output of skimmed milk powder at 1.6 million tons in 1987 also showed a heavy reduction, i.e. 27 per cent, from the level in 1986 and a further drop was anticipated for 1988. The output of whole milk powder at 867 thousand tons in 1987, however, was 27 per cent more than in last year. Some decrease was foreseen for 1988. Cheese output in 1987 at 4.42 million tons was 2 per cent higher than in 1986 and a further 1.5 per cent increase was expected in 1988.

13. In regard to stocks, the developments were more dramatic. On 10 March 1988, physical stocks of butter were 678 thousand tons, of which 586 thousand tons were non-committed. Private stocks totalled 34 thousand tons. This was in contrast to 1.03 million tons of physical stocks a year earlier. The non-committed butter stocks fell by almost 67 per cent over the year. Stocks of skimmed milk powder provided a similar picture. On 10 March 1987 the physical stocks were estimated at 630 thousand tons and on the same date this year were reckoned at 480 thousand tons, showing a decline of 34 per cent. Non-committed stocks fell from 624 thousand tons in 1987 to 246 thousand tons in 1988 or by 60 per cent. There was no public intervention for cheeses. Only some cheese in private storage was financed by the Community funds and its level remained unchanged during the year. As regards intervention, intake of butter in February 1987 was of the order of 21 thousand tons, this was reduced to only 6.5 thousand tons in February 1988. For skimmed milk powder, there was no intervention in 1988 as compared to 6 thousand tons in February 1987. The support prices and target prices had remained unchanged since 1984. The EC took some important decisions in December 1986 and in March 1987 concerning the quota system and the modified intervention prices. The quota system was prolonged for another three years until 1992. Until 1990, the level fixed would remain the same as last year but after that there would be a reduction of 5.5 per cent in the quotas.

14. Strenuous efforts had been made by the EC to produce butter in accordance with demand and to adjust demand in accordance with supply. Consumption of butter in 1987 at 1 million tons was 1.1 per cent less than
in 1986, and a further reduction was anticipated for 1988. Consumption of cheeses in 1987 totalled 4.82 million tons, which was about 1 per cent more than in the preceding year. In regard to the consumption of milk powders, no precise indication was possible. It could, however, be safely assumed that consumption in 1987 more or less remained unchanged from last year.

15. The representative of Japan stated that milk production in fiscal year 1986 was 1 per cent lower than in 1985. A further reduction by 1 per cent was brought about in 1987 with the help of stringent production control measures and a cut in the support prices. The number of cows in 1985 at 1,322,000 was reduced to 1,315,000 in 1986 and further to 1,278,000 in 1987, as a result of the government's programme to subsidize accelerated cow cullings. Due to a fall in milk production and an increase in demand for drinking milk, the production of butter and skimmed milk powder fell by more than 10 per cent.

16. Butter production during fiscal year 1986 was 11 per cent below the level of 1985. Due to a stagnation in demand for butter, the stocks were, however, at a high level. Output in 1987 continued to decline and from April to January (ten-month period) was 17.9 per cent lower than the level in the corresponding period of 1986. Imports of butter in 1986 were 3 per cent lower than the level in 1985, but aggregated 14.9 per cent higher in 1987 than their level in 1986. Average import price in 1987 at US$1,520 per ton c.i.f. was 8.5 per cent higher than the price of US$1,401 per ton c.i.f. in 1986.

17. Much of the cheese consumed in Japan was processed from home-produced natural cheese or imported natural cheese. Domestic output in fiscal year 1986 was 2.3 per cent higher than the level in 1985. Imports of natural cheese, accounting for 80 per cent of total domestic demand, were at the same level in 1986 as in 1985. Imports in 1987 were, however, 16 per cent higher than their level in 1986. Average import price for natural cheese in 1987 at US$1,791 per ton c.i.f. was 8.7 per cent higher than its level of US$1,647 per ton c.i.f. in 1986.
18. As regards skimmed milk powder, production in 1986 was 8.1 per cent lower than in 1985. In fiscal year 1987, production continued to fall and during the ten-month period from April to January, the level was 13.3 per cent lower than in the corresponding period of the previous year. Imports of skimmed milk powder in 1987 at 92,000 tons were the same as in 1986. Average import price in 1986 was US$716 per ton c.i.f. for animal feed purposes and US$903 per ton c.i.f. for human consumption purposes. In 1987, average import price rose to US$779 per ton c.i.f. or by 8.8 per cent for animal feed purposes and to US$1,043 per ton c.i.f. or by 15.5 per cent for human consumption purposes.

19. Replying to a question by the EC as to whether milk production was forecast to increase in 1988, the representative of Japan said that his government had not made any official forecasts and therefore the figure given for 1987 in document DPC/W/76, paragraph 53, could not be confirmed. In reply to another question of whether import quotas for cheese were likely to be liberalized by Japan, he said that while imports of natural cheese were liberalized those of processed cheeses were subject to quotas. Having accepted the main recommendations of the GATT's Council of Representatives relating to the Panel Report (L/6253), the Minister of Agriculture had appointed a special Committee to further look into this particular question. The Protocol Committee would be informed of the outcome as soon as a decision was taken in this respect.

20. The representative of New Zealand told the Committee that climatic variations had a major impact on milk production levels in his country. Variations up to 10 per cent from one season to another were quite normal. Extremely favourable weather conditions in 1985/86 led to a record high production level of 349.4 million kgs. of milk fat, while dry conditions throughout the summer of 1986/87 resulted in a 14 per cent reduction in production to a level of 301 million kgs. milk fat. Assuming average weather conditions, production in 1987/88 could be expected to be around 325 million kgs. milk fat. In early 1988, again bad weather conditions were expected to influence production levels adversely. In addition to
seasonal conditions, a further major contributing factor to the reduction in 1986/87 was a cut in the farm gate price for manufacturing milk which was reduced by 20 per cent from $NZ 4/kg. milk fat to $NZ 3.20/kg. milk fat. The initial basic value for manufacturing milk for the current season was set at $NZ3.10/kg. milk fat, down $NZ 0.10/kg. from 1986/87. In October this was raised up to $NZ 3.35/kg. and would be reviewed again in May 1988. Dairy cow numbers in New Zealand had, however, remained stable at 2.3 million head in the last few years.

21. Referring to actual production of different dairy products, he indicated that while whole milk powder production was maintained at about the same level as in 1985/86, all other products showed heavy reductions in 1986/87. Butter production was down by about 50,000 tons or by 17 per cent; cheese by 14,000 tons or by 11 per cent, skimmed milk powder by 36,500 tons or by 20 per cent; and casein by 13,600 tons or by 18 per cent. With the forecast for the 1987/88 season at 325 million milk fat, whole milk powder production was expected to remain steady at 174,000 tons; cheese output to just above the 1985/86 level; skimmed milk powder at 165,000 tons; and casein 62,500 tons. Butter manufacture was expected to increase to approximately 265,000 tons.

22. As regards stocks, he said that as a result of a heavy reduction in the production of butter in 1986/87, stock position was relatively more balanced at the end of the 1986/87 season. For all other products the supply position was currently very tight, especially for skimmed milk powder and casein. Elsewhere too, supplies from the EC had been heavily reduced, with production running 25 per cent lower than a year earlier. Intervention stocks had been drawn down drastically. Supplies from Northern and Eastern European countries in 1988 were expected to be about on a par with last year. In the United States, supplies of skimmed milk powder remained in reasonable balance throughout 1987 with CCC stocks low. Some increase in skimmed milk powder production and CCC purchasing was expected in 1988, but its effects on the international market were likely to remain marginal.
23. Observing a dramatic turn in market conditions, he anticipated a sharp increase in market prices of most dairy products. Butter and butter oil export prices had firmed up due to EC measures to liquidate stocks and to reduce production. Prices of butter had fluctuated between US$1,000 and US$1,200 per ton f.o.b. and those of butter oil between US$1,200 and US$1,440 per ton f.o.b. Export prices for milk powders had also moved forward dramatically in the last year. Prices of whole milk powder had improved by about two thirds from less than US$900/ton f.o.b. at the end of 1986 to as high as US$1,500 by January 1988. Skimmed milk powder prices had moved by about 75 per cent during the same period from US$800/ton to US$1,400/ton f.o.b., due to reduced milk production, a reduction in EC export subsidies and a fall in the value of the US dollar against European currencies forcing up EC export prices. Cheese export prices had also firmed up considerably mainly due to reduced milk production and a steady growth in demand. The New Zealand Dairy Board would be applying from 1 April 1988 a new benchmark price for Cheddar cheese of US$1,650 per ton f.o.b., up from US$1,475 per ton which it applied from 1 January 1988. The EC prevailing market prices ranged between US$1,625 and US$1,725 per ton f.o.b.

24. Replying to the EC question of whether farmers' reaction in his country depended on favourable weather conditions and export market realizations, he reaffirmed that it was so. The level of milk production in New Zealand was determined, with a time lag, by the export performance of the dairy industry relative to other alternative uses of the land, with short-term sharp variations resulting from climatic conditions. There were no subsidies or regulations to control production. Recently, however, a number of measures had been taken to influence production. These included a supply moratorium and a milk limitation scheme, which was applied in the 1986/87 season and led to a reduction in production by 5,300 tons of milk fat or 1.5 per cent of 1985/86 output. The payment for this "non-production" was US$1.2/kg. milk fat. For the current season a "butter realization differential" scheme had been introduced under which payments to dairy companies by the New Zealand Dairy Board for exports of butter and butter oil beyond a base production level would be made on the basis of marginal rather than average market realizations.
25. The delegate of Poland said that dairy production in his country had been adversely affected by the general economic situation. Currently, production of grains was more profitable than the production of dairy products. In 1987, milk deliveries failed to meet the domestic requirements of dairy products and huge quantities of butter and cheese had to be imported from other countries. Cow numbers declined by 5 to 6 per cent resulting in a net decline of 4 to 5 per cent in milk production. Since much of the milk was diverted into the production of milk fat to meet ever increasing domestic requirements, only a limited quantity of skimmed milk powder of the order of 148-150 thousand tons was being produced and subsequently exported to different destinations at around the IDA minimum price level. Production of whole milk powder was strictly to cover home market requirements and was not meant for export markets. In 1988, a small quantity was likely to be imported for use in children's food. Imports of butter in 1987 amounted to 32 thousand tons, but were likely to exceed this figure in 1988 since in the second quarter alone imports would total 20,000 tons. The average import price for butter was US$1,100 per ton c.i.f. The same situation was true in the case of cheeses. The bulk of production was destined for the domestic market and only 1,000 tons was being exported to the United States under a traditional quota arrangement to buy back cheaper varieties for domestic requirements. In 1987, 5,000 tons of such cheese was bought at around IDA minimum price level.

26. In reply to a question by New Zealand, he said that Poland was not a producer of edible casein, only technical casein. In 1987, his country exported 18,000 tons of such casein to other countries. In reply to another question by the EC as to what were the reasons for an impressive increase of 7 per cent in 1985 and of 8 per cent in 1986 in butter consumption, he said that it was primarily due to increased domestic requirements not matched by domestic production. Imports in 1988 were therefore likely to be more than in 1987 due to the same reason.

27. The representative of South Africa said that milk production in his country continued to be low and there was at the moment a temporary shortage of milk. In order to achieve the highest possible cost
efficiency, the dairy industry was diverting milk to cheese production. The current shortage of milk was the result of generally dry conditions, but with increased rainfall in certain parts of the country the situation was expected to improve in the coming months. In other parts of the country increased rains had resulted in flooding with adverse effects on milk production. Although his country was generally self-sufficient in dairy products, the shortage of milk had necessitated imports of skimmed milk powder, whole milk powder, butter and cheese in the last six months. Domestic production of skimmed milk powder in 1987 was 30 per cent below the level of 1986 and consumption was down 15 per cent over the same period. It was estimated that 1,000 tons of skimmed milk powder would be imported in the first quarter of 1988, with stocks at the level of 5,000 tons by the end of March. Consumption of butter in 1987 continued to fall and showed a net 6 per cent decline over the level in 1986. Imports totalled 1,000 tons in the first quarter and stocks at the end of March would be 2,600 tons. As regards cheese, consumption fell, for the first time in several years, by 7 per cent in 1987, but this was just a hiccup in the long-term trend of increased cheese consumption. With cheese production 13 per cent up in 1987 over 1986 and stocks at over 10,000 tons and an estimated import of 4,000 tons in the first quarter, it was projected that consumption would certainly pick up in 1988.

28. The Finnish delegate said that milk deliveries in his country dropped by about 4 per cent to 2,692 million litres in 1986 and were expected to fall further by 2.5 to 3 per cent in 1988. The fall was attributable to poor weather conditions in 1987 and a drop in real producer prices. Unfavourable weather conditions caused a significant drop in yield of grains in particular, which were needed for concentrate feeds, thus leading to an increase in feed costs. Average milk yield dropped by 53 per cent in 1987, but was expected to increase in 1988 with improved weather conditions. The number of cows dropped by 27,300 head to 579,000 on 1 December 1987. The drop in real producer price was the result of a 2.5 per cent increase in the target price of milk in the last three years. The level of inflation during this period was of the order of 3 to 4 per cent. A new milk bonus system on the whole herd buy-out programme was currently being implemented.
29. Forecasts for production of different dairy products in 1988 indicated that output of butter would be around 64-65 thousand tons as compared to its level of 67.9 thousand tons in 1987; cheese output would be 86 thousand tons as compared to 85 thousand tons in 1987; whole milk powder would be 21 thousand tons compared to 25.2 thousand tons in 1987; and skimmed milk powder would be 32 thousand tons compared to its level of 38.6 thousand tons in 1987. Consumption was not likely to change significantly in 1988. Forecasts for 1988 showed that export availabilities for butter would be 17-18 thousand tons; for cheeses 33 thousand tons; for whole milk powder 20 thousand tons and for skimmed milk powder about 3 thousand tons.

30. The representative of Norway mentioned that despite the two-price system the milk deliveries in 1987 were 1.8 per cent higher than in the previous year. This was mainly due to some relaxation in the application of the quota system. In 1988, however, deliveries were expected to decrease somewhat due to a tightening of the quota system by 1 per cent. The price of milk exceeding the quota had also been reduced by 50 per cent. It had also been noticed that many farmers on their own accord had stopped producing milk. The number of cows had been reduced by 7 per cent from 383 thousand head in 1984 to 356 thousand head in 1986, while the yield per cow had increased by 8 per cent from 5,739 kgs. to 6,212 kgs. during the same period.

31. The production of butter in 1987 was up by 8 per cent as compared to the level in 1986, due mainly to increased consumption of skimmed milk on health grounds. The consumption of butter was up 1 per cent. Exports were 57 per cent more than in 1986 due to increased production and improved market conditions. Contracts had been made for exports of 7,000 metric tons of butter in 1988 at just above the minimum price. As regards cheeses, both production and consumption increased in 1987 rather slowly. Exports also increased only to traditional markets. In regard to milk powders, some exports were likely to be made this year with an improvement in market conditions.
32. The representative of Sweden mentioned that both production and consumption of milk declined between 1986 and 1987 as a result of the two-price system. A further reduction was anticipated for 1988, as both the number of cows and yields per cow were forecast to decline. The number of cows in 1982 at 650 thousand head came down to 576 thousand head in June 1987, and was expected further to be reduced to 570 thousand head in June 1988. Average yield per cow, which had increased to 6,040 kgs. in 1987, was likely to decrease to 5,910 kgs. in 1988.

33. As regards butter production, it fell slightly in the fourth quarter of 1987, compared to its level in the same period of 1986. Consumption and exports also fell. The forecast for 1988 was that while consumption of butter would slightly increase, both production and exports would decrease further. Production of cheese remained more or less unchanged in 1987, but exports fell by 600 tons to 3,700 tons as a result of a decrease in milk production. Domestic consumption as well as imports increased as a result of successful efforts to promote consumption. Stocks at the end of 1987 decreased to 37,400 tons from 42,000 tons at the end of 1986. It was expected that consumption of cheeses, especially hard cheeses, would increase further in 1988 and in order to meet this increase both domestic production and imports of cheese would have to increase. Finally, the production of skimmed milk powder fell from 48,700 tons in 1986 to 46,000 tons in 1987 again as a result of a decrease in milk production. While domestic consumption decreased, both exports and imports increased during this period. The forecast for 1988 was that production of skimmed milk powder in 1988 would further decline by 5 per cent and exports would recede to the 1986 level.

34. The representative of Switzerland said that milk deliveries fell by 3.4 per cent from 3.05 million tons in 1986 to 2.95 million tons in 1987. There was a reduction of 4.6 per cent in the number of cows, from 848 thousand head in 1984 to 809 thousand head in 1987. Thus, measures applied to prevent deliveries in excess of quotas had showed positive results.
35. Output of butter dropped from 31,800 tons in 1986 to 28,400 tons in 1987 or by a little more than 11 per cent. Imports, however, increased sharply by 45 per cent during this period. Consumption was down by only 3 per cent, from 40,100 tons in 1986 to 38,800 tons in 1987. Stocks showed a slight increase. In the fourth quarter of 1987, while production was down by 22 per cent compared to its corresponding level in 1986, imports were 129 per cent more during the same period. The average import price during the fourth quarter was reckoned to be US$1,303 per ton c.i.f., i.e. 6.9 per cent more than its level in the same period of last year. The price in the first quarter of 1988 rose to US$1,400 per ton c.i.f. As regards cheese, production dropped from 127,200 tons in 1986 to 124,500 tons in 1987 or by about 2 per cent. Imports increased from 22,600 tons to 23,700 tons, or by 5 per cent during this period. Exports, however, fell by 8.6 per cent from 64,200 tons to 58,700 tons during the same period. Consumption fell by about 3 per cent in 1987 compared to its 1986 level. Stocks showed a more than 10 per cent increase over the year. Cheese export prices in the fourth quarter averaged US$6,852 per ton f.o.b., i.e. 6.7 per cent higher than their level in the fourth quarter of 1986. As regards powders, production of skimmed milk powder in 1987 dropped by 20 per cent to 22,400 tons. The drop in the fourth quarter alone was 48 per cent. Exports increased during 1987 to 9,500 tons from 7,700 tons in 1986. Consumption also increased by almost 7 per cent during 1987. Export prices averaged US$1,046 per ton f.o.b. On the other hand, production of whole milk powder increased during 1987 to a level of 14,100 tons, i.e. 8.5 per cent more than last year. Consumption was more or less stable and stocks were relatively low. Import price was US$1,419 in the fourth quarter of 1987 as compared to its level of US$1,143 per ton c.i.f. in the same period last year.

36. Replying to the EC question of why price supplements had recently been increased disproportionately on cheeses despite an increase in import prices, he recalled that when the basic price of milk was raised in 1984 and again in 1986, the price supplements or import charges were not at all adjusted accordingly. In February 1988, however, when imports of cheese increased significantly, the basic price of milk was increased by 5 centimes
to Sw F 1.02/kg. and the import supplements were only moderately increased, i.e. by Sw F 50-60 per 100 kgs., to reduce somewhat the price difference between imported and domestic cheeses.

37. The representative of Uruguay mentioned that as a result of increased milk deliveries in 1987, there was a significant increase in the output of dairy products. Production of skimmed milk powder increased from 3,800 tons in 1986 to 6,936 tons in 1987, butter from 10,900 tons to 11,500 tons and cheeses from 13,900 tons to 14,507 tons. While exports of the first two products increased significantly, those of cheeses dropped by almost 50 per cent in 1987. Consumption increased across the board: for skimmed milk powder from 1,000 tons in 1986 to 2,500 tons in 1987; for butter from 2,600 tons to 3,200 tons; and for cheeses from 7,200 tons to 10,161 tons. To maintain production at a reasonable level, significant stock levels, especially of butter, had to be maintained. At the end of 1987, stocks of skimmed milk powder totalled 1,800 tons; of butter 3,500 tons; and of cheese 1,800 tons.

38. The delegate of Australia informed the Committees that milk production in 1987/88 was forecast to be 6,155 million litres, which was slightly below the 1986/87 level of 6,176 million litres due to a reduction in the number of cows and farms. Cow numbers on 31 March 1987 were 1.69 million head compared with 1.78 million head in 1986.

39. Australian butter/butter oil (commercial butter equivalent) production in the fourth quarter of 1987 of 45,600 tons was more or less the same as in the corresponding period in 1986 of 45,300 tons. Production in 1987/88 was estimated at 100,000 tons, which would be 3.7 per cent below the level of 103,800 tons in 1986/87. Domestic sales of butter/anhydrous milk fat were expected to fall by 2 per cent in 1987/88 to 55,000 tons from 56,200 tons in 1986/87. Exports for 1987/88 were expected to be 50,000 tons as against 35,000 tons in 1986/87, leaving closing stocks of around 25,000 tons as against opening stocks of 32,000 tons. But stocks were expected to decline as a result of reduced production and a rise in exports. As regards the world situation, he was of the opinion that the
international market remained generally weak with prices of both butter and anhydrous milk fat at their respective IDA minimum levels. However, isolated spot sales of fresh EC butter had been reported at US$1,100 per ton. Recently, large EC butter sales to the USSR, together with an extensive domestic disposal scheme, would significantly reduce EC stocks. Such large EC sales had effectively closed the USSR market for butter sales at or near the IDA minimums by other exporting countries. While world production and stocks of butter/butter oil were gradually decreasing and EC stocks, in particular, had declined, there was a reasonable hope that world market would firm up in 1988.

40. Production of cheese in the fourth quarter of 1987 was 65,700 tons, about 4 per cent more than in the corresponding period of 1986. Output of Cheddar-type cheese during this period at 49,800 tons was 5 per cent higher than its level of 47,400 tons in the corresponding period of 1986. The increase in production was due to increased export orders and rising domestic demand. Non-Cheddar cheese production increased by about 23.6 per cent from 12,800 tons to 15,900 tons. Production of cheese for 1987/88 was expected to be 182,000 tons, which would be 2.6 per cent more than the previous year's output of 177,500 tons. Cheddar cheese output for 1987/88 was forecast at 124,000 tons, up slightly from the 1986/87 level of 123,300 tons; and non-Cheddar cheese would be 58,000 tons, 7 per cent more over the 1986/87 level of 54,200 tons. Exports of cheese in 1986/87 were 57,200 tons, of which Cheddar was 50,000 tons and non-Cheddar 7,200 tons. Total cheese exports in 1987/88 were forecast to reach 68,000 tons, with closing stocks of 84,200 tons. Domestic sales of Australian cheese in 1986/87 were 111,400 tons, of which Cheddar was 67,100 tons and non-Cheddar was 44,300 tons. Consumption in 1987/88 was forecast to increase marginally to around 116,000 tons, for Cheddar 68,000 tons and non-Cheddar 48,000 tons. As regards the world situation, it was expected that world supply would remain tight in 1987/88 and demand would continue to be strong. World price had firmed up between US$1,200 and US$1,500 per ton, as against GATT minimum price of US$1,120 per ton which was raised to this level from US$1,030 per ton on 23 September 1987. However, increased domestic consumption in the EC, the United States and Canada was expected to lead to lower exports despite some increase in production.
41. Production of skimmed milk powder/buttermilk powder in the fourth quarter of 1987 was 64,700 tons, showing an increase of 4.9 per cent over the level of 61,600 tons in the corresponding period of 1986. Output of skimmed milk powder increased from 57,600 tons to 61,100 tons, whereas buttermilk powder output decreased from 4,000 tons to 3,600 tons. The overall increase was due to the increase in butter production. Estimated output for 1987/88 was 134,000 tons as against 136,900 tons in 1986/87. Skimmed milk output was expected to decrease by 2.6 per cent from 42,100 tons in 1986/87 to 41,000 tons in 1987/88, and buttermilk was expected to decrease by 9.1 per cent from 2,200 tons to 2,000 tons. Exports in 1986/87 were about 90,200 tons and in 1987/88 were expected to be 108,200 tons with closing stocks at 8,300 tons for skimmed milk powder.

As regards the world situation, the international market for skimmed milk powder remained firm with current prices in the range of US$1,200-US$1,400 per ton f.o.b. The GATT minimum price for skimmed milk powder was increased from US$765 to US$825 per ton on 23 September 1987. The supply of this product was expected to remain tight for the remainder of 1987/88 and prices to continue to rise. Stocks of fresh SMP from the EC were in tight supply as current stocks were at least two-years' old and had little market demand. Both Australia and New Zealand had committed their entire export availability for the remainder of 1987/88. Output of whole milk powder in the fourth quarter of 1987 at 21,600 tons was 9.7 per cent below that for the same period of 1986. Production was forecast to remain about the same in 1987/88 at 65,000 tons, as against 65,300 tons in 1986/87. Domestic sales of whole milk powder were expected to decrease by about 3.7 per cent in 1987/88 to 13,000 tons. Exports in 1987/88 were forecast at 52,000 tons, as against 51,500 tons in 1986/87, with closing stocks at 7,300 tons. Commenting on the world situation, he said that recent quotes for whole milk powder were in the vicinity of US$1,150-US$1,250 per ton f.o.b., indicating that the market continued to remain firm. The GATT minimum price was raised to US$950 per ton f.o.b. on 23 September 1987. With the cessation of intervention buying of butter by the EC, more milk was being diverted from butter to whole milk powder production with the result that world supplies had increased but at the same time prices had
remained firm due to continued strong demand. Both Australia and New Zealand had committed their entire export availability for the remainder of 1987/88.

42. Replying to the EC question, the Australian delegate explained that there were no differences in export prices of skimmed milk powder according to destinations, but prices could differ according to the terms of the sales contracts and the periods for which contracts were made. Price differences also existed according to quality and the end-use of the product exported. This view was shared by the New Zealand expert who elaborated that price differences depended on the quality of the product sold for human consumption or for animal feed purposes.

43. The delegate of Bulgaria said that the general dairy situation in his country was adversely affected by unfavourable weather conditions in 1987. Butter output at 26,000 tons was, however, 6.6 per cent higher than in 1986. Exports as well as imports were lower, while domestic consumption slightly increased parallel to the increase in production. Production of cheese, which played a pivotal role in the dairy sector, was about 5 per cent lower in 1987 at 134,100 tons. Exports of cheeses were also lower. As regards milk powders, domestic production being nil only the essential quantities were imported on an ad hoc basis.

44. Total production of milk in 1987 at 2,450 million litres was about 3 per cent lower than the 1986 level of 2,527 million litres, mainly due to unfavourable weather conditions. Per capita consumption of milk in 1987 remained around 186 litres. Total number of cows on 1 January 1986 was 670 thousand head out of a total cattle population of 1.76 million head. The number of cows had steadily decreased since 1982. Productivity per cow was 3,140 litres and per sheep was 47 litres.

45. Commenting on the general dairy situation, the delegate of Hungary said that milk production in 1987 at 2.73 million litres had shown some increase over the years despite a decrease in the cow numbers. Productivity had somewhat increased. The bulk of domestic production of dairy products was used to meet domestic requirements.
46. Output of skimmed milk powder in 1987 dropped to 16,000 tons from 20,000 tons in 1986, but this was in line with domestic consumption, mainly for animal feed purposes, which ranged between 16,000 to 18,000 tons annually. About 1,000-2,000 tons were annually imported and in 1987 such imports totalled 800 tons. Production of whole milk powder was geared to meet only domestic market requirements and remained unchanged at 4,000 to 5,000 tons. Production of butter also remained unchanged at previous years' level of 32,000 tons, while consumption had steadily soared to a level of 36,800 tons, showing a 9 per cent increase over 1986. As a result of increasing domestic requirements, exports of butter had been gradually replaced by growing imports from neighbouring countries, including Finland. Production of cheeses had steadily increased, reaching a level of 56,500 tons in 1987 with a 4 per cent increase over 1986. However, consumption had grown even faster at a rate of 14.5 per cent to a level of 52,000 tons in 1987. As a consequence, exports which had traditionally been between 8,000-9,000 tons in the past few years had dropped to 5,000 tons in 1987, mainly to European and certain middle Eastern markets.

47. The observer from Canada informed the Committee that total farm sales of milk in butterfat terms during the period of August to November 1987 had increased by 1.7 per cent over the corresponding period of 1986. Market quotas had been increased by 1.5 per cent for 1987/88 (August to July) to a level of 47.3 million hls. A new methodology for setting target returns for industrial milk and support prices for butter and skimmed milk powder was being implemented which would allow changes in costs to milk producers to be more accurately reflected. Target returns would be raised by 1 per cent, the first increase since August 1986. In general, the demand for dairy products had increased. The demand for butter during 1986/87 was, however, 5 per cent lower, but it had slightly increased in the current year. Production of butter in 1987/88 was, however, lower and this led to a further reduction in the inventories of butter. This consumption pattern was expected to continue throughout 1987/88 as a result of better marketing and promotional advertising. However, consumption was expected to decline in 1988/89. Total annual production of butter was anticipated to be 5 per cent higher in the dairy year 1987/88. On the other hand, both production
and consumption of Cheddar and speciality cheeses were expected to grow, though less dramatically than in the recent past. During the first four months of the dairy year 1987/88, production increased by 7 per cent while consumption increased by only 3 per cent. With the expected increase in butter production, the output of skimmed milk powder was also expected to increase by 5.8 per cent over the previous year. However, export availability would decline since much of the increase in production would be domestically absorbed. Stocks were likely to remain unchanged as compared to last year.

48. Commenting on the general dairy situation, he mentioned that there were about 1.5 million dairy cows and the yield per cow was estimated to be 4,700 kgs. per annum. While the number of dairy herd had been declining by about 1 per cent per annum, yields had been increasing by just about the same proportion.

49. Replying to a comment by the EC that Canada was constantly increasing its milk production while they were reducing it, he noted that the small increase that was anticipated was geared to meet the increasing domestic requirements and had practically no effect on international supplies of dairy products. Replying to a question by New Zealand, he indicated that butter stocks at the end of 1987 totalled 17.96 thousand metric tons. The level was expected to be reduced to 15.93 thousand metric tons by the end of 1988 and to 13.93 thousand metric tons by the end of 1989.

50. Outlining the dairy situation in the USSR, the observer of the Economic Commission for Europe noted that milk output went up by 1.2 per cent in 1987 to reach a level of 103.4 million tons. Average milk yields per cow increased by 72 kgs. or 3 per cent, while cow numbers in all types of enterprises decreased by 1 per cent and stood at 42 million head in January 1988. Butter output went up by 4 per cent, totalling 1.72 million tons in 1987. Cheese output at 861,000 tons was up by 3 per cent in 1987 as compared to the level in 1986. Production of margarine at 1.5 million tons in 1987 was 6 per cent higher than in 1986.
51. In response to the EC question of whether the USSR would be able to achieve its goal of 110 million tons of milk production by the end of 1990, he noted that it was a feasible goal provided the general weather conditions remained favourable and the international feed costs remained unchanged. In reply to another comment, he agreed that with twice the size of cow herd than in the EC the productivity per cow was just about half in the USSR and any increase in this could have serious repercussions on the world supplies. Since international prices of butter were low at present, the USSR found it advantageous to buy from outside. As soon as prices were to go up, they would be obliged to tap their domestic potential to the fullest which would worsen the existing imbalance in world supply and demand. Replying to the Australian question, he indicated that normally exports of butter from Russia amounted to 20,000 metric tons a year. In 1986, such exports were only 16,000 metric tons due to adverse weather conditions.

52. The observer of the OECD provided an update on the dairy situation in the United States. He indicated that milk production was expected to increase by 2 per cent to hit the record level of 65 million tons in 1988. Stocks of all dairy products were currently very low and fell short of the domestic aid programme which was important in the past in stimulating consumption. Support prices were lowered in January 1988.

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

53. The Committees reviewed the level of the minimum prices of products covered by the respective Protocols on the basis of the criteria established by the Arrangement.

54. The Committees decided, in pursuance of Article 3:3 of each of the Protocols that the levels of the minimum prices specified in that provision would be raised (f.o.b. per metric ton) to US$900 for skimmed milk powder, US$1,000 for whole milk powder, US$900 for buttermilk powder, US$1,325 for anhydrous milk fat, US$1,100 for butter and US$1,200 for certain cheeses. The schedules of price differentials according to milk fat content were consequently modified. It was agreed that the decisions would take effect at noon on 23 March 1988.
55. The Committees agreed that the decisions would be duly recorded in the respective reports and would be the subject of a Procès-Verbal signed by the Director-General of the CONTRACTING PARTIES to the General Agreement, certifying the entry into force of the new minimum prices and the new schedules of price differentials.

56. In supporting the increase in minimum prices, the representative of Australia believed that it was a positive signal to the market of the approach adopted by the IDA participants. He expected a further firming of the milk fat market. However, he had some sympathy with the Nordic's view that if steps to comply with minimum prices were not implemented, there was a risk of returning to the difficult market conditions which prevailed in the last three years. He, therefore, expected that if problems should occur then all participants would co-operate in obtaining a quick and speedy resolution of such problems.

57. The representative of New Zealand welcomed the increase in the minimum prices. This demonstrated the ability of the participants of the International Dairy Arrangement to work together. He, however, regretted that in fixing the new minimum export prices no clear criteria had been followed. The current market situation had provided an opportunity to re-establish a more stable basis for trade and to restore export prices to levels which were economically more sustainable. He hoped that appropriate steps would immediately be taken to apply the new minimum prices. His delegation would, however, like to revert to the question of the minimum prices at the next meeting in June.

58. The representative of Finland, on behalf of the Nordic countries, also reserved his right to revert to this matter at a subsequent meeting later this year if it was found that the new minimum prices were not effectively working in the market place. The Nordics accepted the new minima in a spirit of compromise, but they wished to reiterate that the minimum prices merely served as a safety net and a signal to the market that prices were improving.
59. In concluding the discussion on this subject, the Chairman paid tribute to the participants for their manifest sense of urgency and a spirit of close co-operation. He hoped that the price signal to the market would lead to an amelioration of the world dairy situation. The statements made by Australia, New Zealand and Finland, on behalf of the Nordic countries, would be reflected in the report.

Improvement of working methods

60. The Chairman recalled that the question of improvement of working methods had been a subject of informal discussions among the members for some time in the past. A note reflecting the views expressed so far by the participants informally had been circulated in document DPC/W/78.

61. The Protocol Committees took note of document DPC/W/78 and agreed that it provided a broad framework for improvements in procedures and working methods. Some participants suggested some further changes in the note. It was generally acknowledged that certain suggestions for improvement had already been implemented. Other suggestions seemed to warrant further reflection. It was therefore agreed that the discussions on the matter might be continued at some later stage.

Adoption of reports to the Council

62. The three 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 document Spec(88)17.

Date of next meeting

63. The next sessions of the Committees will be held consecutively on 20-22 June 1988, subject to confirmation by the secretariat. The session of the Committee of the Protocol Regarding Certain Milk Powders will be followed by the Committee of the Protocol Regarding Milk Fat and then the Committee of the Protocol Regarding Certain Cheeses.
COMMITTEE OF THE PROTOCOL REGARDING MILK FAT

Thirty-Third Session

Draft Report

Agenda items A, B, C, F, H, I and J

1. All these agenda items were discussed at a joint session of the three Protocol Committees and have been incorporated in this report.

Transactions other than normal commercial transactions

2. The Committee was informed that no further sales had been reported since the last EC notification DPC/F/W/31 and Add.1, dated 18 September 1987.

Sales under derogations

3. The Committee took note of the EC statement that all deliveries of butter in relation to the Decision adopted on 31 May 1985 (DPC/F/35), had been completed. The Committee also took note of additional information furnished by Australia (DPC/F/W/34) and New Zealand (DPC/F/W/35), concerning sales related to the Decision of 2 June 1987 (DPC/F/48), and of the agreement of 15 December 1987 (DPC/F/53).

4. The Committee examined a request by the EC for a derogation under Article 7:1 of the Protocol concerning sales of butter oil to Bangladesh. It took the following Decision (distributed as document DPC/F/55):

The Committee of the Protocol Regarding Milk Fat, acting in conformity with Article 7:1 of the Protocol, authorizes the European Economic Community to export butter oil and/or ghee, manufactured from butter aged at least 18 months out of public intervention stock to Bangladesh at a price inferior to that set out in Article 3 of said Protocol.
The quantity contracted will be around 50,000 tonnes of butter oil and/or ghee.

Exports shall be completed by 31 December 1988.

The European Economic Community shall take all possible steps to ensure that the product concerned is finally consumed in the country of destination.

5. The representative of Uruguay did not join the consensus on this Decision, but did not formally object to the granting of the derogation. He reiterated that sales planned under this derogation were not consistent with the provisions of Article 3 of the Protocol. His country was not in favour of waivers under which butter could be sold at below the minimum price. This gave the big exporters with sufficient financial resources an undue advantage to subsidize their exports vis-à-vis small exporters who lacked the necessary resources to do the same. Uruguay's butter exports were not subsidized and any sales by large exporters at prices below the minimum price could cause it a serious injury. It was therefore imperative that the minimum price increase be respected by all participants and waivers were not manipulated for selfish reasons. Bangladesh, for which a waiver was being sought, did not have the necessary absorptive capacity to utilize such a big shipment of butter. In fact, such a large quantity of butter would interfere with their own domestic production. Bangladesh also did not have the storage facilities for such a big consignment of butter oil and as a consequence, there was a real possibility that it would be re-exported to other countries. He sincerely hoped that the EC would refrain in future from using waivers to liquidate its stocks and would take the necessary steps to respect the minimum prices.

6. The representative of Argentina shared the concern expressed by Uruguay and submitted that the frequent manipulation of derogations by the EC had not been conducive to the working of the IDA.
7. The representative of the EC reassured the participants that steps were being taken to seek the necessary guarantees that the butter oil exported to Bangladesh was totally consumed in that country and that it would not leak out to any neighbouring country. However, there was no danger that Bangladesh's own production of butter would be adversely affected or that it would become an exporter of its surplus fresh butter not consumed within the country. The fact was that Bangladesh was neither a big consumer nor a big producer of butter and the 50,000 tons of butter oil/ghee that were being sent were to meet the immediate requirements of that country. The EC was fully conscious of the difficulties some butter exporters were currently facing, but these difficulties were in no way accentuated by the proposed exports to Bangladesh.