1. The three Protocol Committees held a joint session on 12 December 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-ninth 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. Monitoring of the Decision to suspend minimum prices for butter and anhydrous milk fat (DPC/PTL/40)
G. Transitional arrangements with respect to the entry into force of the International Dairy Agreement

H. Adoption of report to the Council

I. Procedure to be followed for adoption of the report of the sixtieth session

J. Dates of next meeting

A. Adoption of report on the fifty-ninth session

3. The report on the fifty-ninth session was adopted and distributed as document DPC/PTL/45.

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 fourth quarter of 1994 by 15 March 1995.

(ii) Summary tables

5. It was drawn to the attention of participants that statistics based on information provided up to the second quarter of 1994 in respect of milk powders, milk fat and cheeses had been incorporated in the Annex of the fifteenth annual dairy report "The World Market for Dairy Products 1994".

(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 Committees noted that no new relevant information had been received by the Secretariat.
D. Sales under derogations

8. 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.6). The Committee also took note of a notification by New Zealand of sales under derogation of cheeses (document subsequently issued as DPC/PTL/W/148).

E. Review of the market situation

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

Argentina

10. Comparing the third quarter of 1994 to the corresponding quarter of 1993, production of skimmed milk powder increased by 5 per cent to 2,900 tons. Imports decreased from 2,300 tons to 280 tons. In contrast, exports increased from 400 tons to 1,650 tons in that period. Stocks at the end of the quarter remained stable at 2,400 tons.

11. Production of whole milk powder increased from 17,400 tons to 20,000 tons. Imports increased substantially from 200 tons to 3,000 tons and exports also increased from 1,700 tons to 2,800 tons. Stocks at the end of the quarter remained stable at 6,600 tons.

12. Butter production increased by 7 per cent to 13,000 tons. Imports increased by 43 per cent to 2,100 tons in that period. Exports dropped to 22 tons compared to exports of 200 tons in the third quarter of 1993. Stocks at the end of the third quarter remained stable at 3,600 tons.

13. Production of cheese in the third quarter of 1994 remained stable at 80,000 tons. Imports increased from 850 tons to 1,700 tons and exports increased also from 750 tons to 1,250 tons. Stocks at the end of the third quarter, at 18,200 tons, remained at the same level as in the previous year.

Australia

14. The 1994/95 dairy season was characterized by significant early season milk production increases, which later eased substantially. This was due principally to the effects of drought, both directly on milk production in New South Wales and Queensland and through associated dramatic increases in
feed grain prices which impacted on production in other regions. Some companies in Queensland and New South Wales had anticipated further production increases, however now their output was expected to be 5 to 10 per cent lower than 1993/94, if continued dry conditions through early 1995 impacted on important autumn production. Although most other dairy producing regions in Australia did not experience drought conditions, most regions reported abnormally low winter and early spring rainfall. While the dry conditions boosted winter and early spring production in several regions, there was concern that production in the late spring, as well as summer and autumn, would be lower than expected. Many farmers reduced their use of purchased grain as feed grain prices increased to around $A 240-$A 250 per ton. In summary, despite early season optimism, national 1994/95 milk production was now expected to be in line with the original estimate of 8,300 million litres.

15. With increased economic activity, there was an overall rise in demand for dairy products and an associated increase in new product development activity. Cheese sales in supermarkets for the year ending September 1994 increased by almost 3 per cent to 105,100 tons over the same period in the previous year, with the largest increase being in hard eye, hard grating and mould types. There was increased demand for convenience lines, e.g. pre-sliced and pre-shredded lines of cheese, as well as for lower fat cheeses. The growth in sales of pizza/Mozzarella and hard grating types of cheese reflected the wider trend towards Mediterranean style cuisine - especially Italian food. Total cheese consumption in 1993/94 increased by around 2 per cent over the same period in 1992/93. Butter/anhydrous milk fat sales in 1993/94 were over 54,000 tons, an increase of 2 per cent on 1992/93 levels, and per capita consumption increased by almost 4 per cent over the same period. There was an increased demand for mono-unsaturated tablespreads and steady sales of dairy spreads, both butter and butter/vegetable oil blends. Other underlying trends in the domestic market included a slight increase in liquid milk consumption, increased demand for lower fat milk and yogurt lines, and increased interest in cultured yogurts and dairy desserts.

16. International market conditions for the major traded dairy products generally remained favourable. Price increases evidenced in mid-year had been maintained. Supply and demand appeared to be closely matched in the short term, mainly as a result of reduced export availability, particularly from Europe.

17. After several years of strong downward pressure, the international butter and anhydrous milk fat market firmed during the second half of 1994, in part as a result of low aggregate stock levels in the United States and European Union, falling production in the European Union, the lower than expected increase in Australian and New Zealand butterfat supplies in 1994/95 and some increase in consumption in the European Union and the United States.
18. Prices for butter and anhydrous milk fat were reported in the range of US$1,350-US$1,400 and US$1,700 per ton, respectively, and had improved since September. Predictions that the suspension of IDA minimum prices for these products would result in prices collapsing had not materialized. The European Union's public butter stocks, currently standing at around 72,500 tons, were at their lowest level this decade, and there was limited prospect of any rapid short term build up. In the United States, the reduction in support prices for butter in 1994 had triggered a strong rise in domestic sales. As a result, government stockpiles continued to fall, and were now at low levels (around 16,000 tons). In Japan, the fall in local milk supplies associated with the very hot summer helped to significantly reduce the previously high butter stocks. The short-term outlook for the butterfats' market was reasonably positive with prices expected to continue firm in 1995, in part, as a result of improved New Zealand access to such markets as the European Union, Canada and Japan. However, if the European Union curtailed its high level of subsidized sales to domestic users, more product might be directed to the export market with consequential price depressing effects.

19. Skimmed milk powder was trading at around US$1,900 per ton, US$700 above the IDA minimum price and an increase of around US$150 per ton at the top end of the market since the September IDA meeting. The increase occurred primarily as a result of low production in the European Union and a consequent tightening in European Union export supplies, together with firmer demand from major buyer markets. Public stocks of skimmed milk powder in the European Union and the United States were low by historical standards, at around 76,000 tons and 10,000 tons, respectively. 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 and Japan recently renewed its purchases of product through the LIPC to cover shortfalls in domestic supplies. The outlook for the skimmed milk powder market was positive with availability expected to remain tight until next April, and demand from Asia remaining strong. Additionally, demand by Mexico was expected to be very strong in 1995 with a possible import target of around 80,000 tons for the first half of the year. Prices for skimmed milk powder should remain buoyant in the short to medium term. Buttermilk powder prices were in the range of US$1,400-US$1,450 or US$200-US$250 above the minimum price.

20. Whole milk powder prices were in the range of US$1,750-US$1,800 per ton, or US$550 above the IDA minimum price at the top end of the market. This represented an increase of US$150 per ton at the top end of the market since September. The fact that whole milk powder prices were lower than skimmed milk powder prices reflected the lower value of fat relative to protein. The steady growth in whole milk powder demand in recent years allowed the market to successfully absorb the rapid increase in export supplies from New Zealand (up to 50 per cent over the past five years), and to a lesser extent
from Australia. International demand for whole milk powder should continue to grow as the world economy recovered in 1995, and countries such as China increased imports. International prices should remain strong during the first half of 1995.

21. Cheese prices remained generally firm, with demand in the major export market, Japan, maintaining a steady growth, despite some build up of Japanese stocks. Bulk Cheddar was trading in the range of US$1,650-US$1,875 per ton or between US$150-US$375 above the IDA minimum price, a marginal increase in price at the top end of the market since September. The short-term outlook for the international cheese market was generally positive due to: the 10 per cent cut in the European Union's export subsidies in 1994 which would have a full impact on cheese export prices in 1995; the opening up of market opportunities in Korea, the United States and the European Union as a result of the Uruguay Round commitments; and renewed economic growth in Japan. There was scope for cheese prices to rise moderately during the first half of 1995, with prices likely to average around 2-3 per cent above their comparable levels in early 1994. The longer-term prospects for international cheese prices remained positive with demand from Asian markets steadily increasing in line with gradual increases in per capita consumption and greater willingness to embrace Western style foods.

Switzerland

22. In the first ten months of 1994, milk deliveries totalled 2,590 million tons, an increase of 1.2 per cent compared with the corresponding months of 1993.

23. Comparing the third quarter of 1994 with the third quarter of 1993, production of skimmed milk powder decreased by 30 per cent to 2,600 tons, while consumption decreased to 3,900 tons compared to 4,900 tons. Exports increased to 2,400 tons compared to 1,200 tons and stocks at the end of the third quarter of 1994, at 4,600 tons, were 35 per cent higher than their level one year earlier.

24. Production of butter in the third quarter of 1994 increased by 10 per cent to 7,900 tons, compared to the third quarter of 1993. Consumption increased to 10,400 tons compared to 10,100 tons. Imports remained negligible. However, in October 1994, some 1,700 tons of butter were imported and in November and December 1994 a further 1,000 tons were imported.

25. With regard to cheese, as a consequence of measures taken to limit production, output decreased in the first three quarters of 1994 by 1,200 tons compared to the corresponding period of 1993. Consumption remained stable in the first nine months of 1994. Imports of cheese increased by 3 per cent
to 22,500 tons in the first three quarters of 1994. Exports of cheese decreased by 7 per cent to 41,000 tons in that period. Despite the decrease in production, stocks at the end of the third quarter of 1994 increased to 31,200 tons compared to 25,700 tons one year earlier. This high level of cheese stocks was of concern.

Uruguay

26. For the third quarter of 1994, production of skimmed milk powder decreased by 34 per cent to 1,500 tons compared to the third quarter of 1993. Exports amounted to 4,000 tons, the destinations being Argentina, Chile and Peru. Export prices ranged between US$1,510 and US$2,450 per ton c.i.f.

27. Production of whole milk powder in the third quarter of 1994 decreased by 50 per cent to 2,000 tons. Exports amounted to 2,300 tons and were destined to Peru. Export prices ranged between US$1,785 and US$2,459 per ton c.i.f.

28. Production of butter in the third quarter of 1994 decreased to 2,800 tons compared to 4,500 tons produced in the third quarter of 1993. Exports amounted to 3,350 tons and were destined to Argentina, Chile and Mexico. Export prices ranged between US$1,714 and US$5,184 per ton c.i.f.

29. Production of cheeses amounted to 5,600 tons in the third quarter of 1994. Exports were at 2,600 tons and were destined to Brazil, Mexico and the United States. Export prices ranged between US$2,700 and US$6,870 per ton c.i.f.

Sweden

30. Deliveries to dairies increased by almost 3 per cent in the first nine months of 1994 compared to the corresponding period of 1993. When Sweden joined the European Communities on 1 January 1995, a milk quota system was reintroduced within the Common Agricultural Policy. The milk quota for Sweden would be fixed at 3,303 thousand tons including direct sales, reflecting the present production level.

31. For the first three quarters of 1994, compared to the first three quarters of 1993, production of butter decreased by 20 per cent, output of skimmed milk powder decreased by 9 per cent and production of cheese increased by 9 per cent. The switch from butter production to cheese production reflected the expectations of producers in anticipation of membership to the European Communities.
32. Domestic sales of liquid milk increased slightly in the first three quarters of 1994. However, sales of powders and butter decreased in that period.

33. With regard to trade, Sweden's imports of dairy products are dominated by imports of cheese. Sweden imported 22,900 tons of cheese in the 1993/94 budgetary year, an increase by 5 per cent compared to 1992/93. Sweden traditionally exports milk powders and butter. In the budgetary year 1993/94, exports of butter dropped to only 5,900 tons compared to 16,800 tons exported in 1992/93.

Finland

34. Milk deliveries during January-September 1994 were 2.2 per cent higher than in the corresponding period of 1993. Total production during 1994 was expected to increase by 2.2 per cent to 2,315 million litres.

35. Skimmed milk powder production increased by 0.5 per cent during January-September 1994 to 11,800 tons. Exports during that period were 591 tons and stocks in September 1994 were 4,000 tons. Total production for 1994 was estimated to reach 15,000 tons and consumption 13,000 tons. Whole milk powder production was 602 tons during January-September 1994 and exports were nil. For the full year, production was expected to total 1,000 tons, consumption 800 tons and exports zero. Stocks in September 1994 were 332 tons.

36. Butter production in January-September 1994 was 2.1 per cent higher than in the corresponding period of 1993. The estimate for the whole year 1994 was of 57,000 tons, an increase by 1.3 per cent over 1993. Butter consumption in January-September 1994 increased by 0.4 per cent but no change was expected for the full year. Finland exported 19,000 tons of butter in the period January to September 1994 and expected to export 20,000 tons by the end of the year. Stocks in September were 1,700 tons.

37. Cheese production increased by 1.4 per cent during January-September 1994 to 70,000 tons. Consumption in January-September 1994 was 3.8 per cent higher than in the corresponding period of 1993. Consumption in 1994 was expected to amount to 74,000 tons, showing an increase of 2.3 per cent as compared to the previous year. Exports in January-September 1994 increased by 4.6 per cent to 18,000 tons and were expected to amount to 25,000 tons for the full year 1994. Stocks in September were 10,800 tons.
Norway

38. For the whole of 1994, milk deliveries were forecast to total 1,740 million litres, 40 million litres less than 1993. This reduction was mainly due to a reduction in the quotas. Production was forecast to remain stable in 1995. Decreased milk production was reflected in less production of the most important dairy products. The Minister of Agriculture had proposed to allow buying and selling of quotas among producers, but the system had not yet been established. The aim was to have a more efficient production and to reduce the subsidy and the price producers receive for milk.

39. Comparing the first nine months of 1994 with the corresponding period of 1993, production of skimmed milk powder decreased to 5,100 tons. Consumption decreased also by about 10 per cent. Production of whole milk powder increased to 1,100 tons while consumption remained stable. There were no substantial exports or imports of milk powders in the first three quarters of 1994.

40. Butter production was 10,200 tons, a decrease by 13 per cent. Consumption of butter decreased by 5 per cent. There were no imports of butter in the first nine months of 1994, while exports amounted to 3,500 tons, 34 per cent less than the comparable period of 1993. The reason for this large decrease was that there was less butter in storage.

41. Production of cheese amounted to 60,600 tons, a decrease by 3.5 per cent. Cheese consumption increased by 1.2 per cent to 43,000 tons. Imports at 1,600 tons were down by 4.7 per cent. Exports fell by 6 per cent to 16,600 tons. The export destinations were mainly the United States, the European Communities, Canada, Sweden, Japan and Mexico. Exports were expected to total 19,000 tons in 1994.

South Africa

42. Milk production in South Africa has increased since August 1994 with no shortages now experienced. This was in accordance with the trends in previous years when a seasonal shortage was usually experienced in the winter months. The total production for 1994/95 is estimated at 1.958 million tons. 1994/95 milk consumption is expected to decrease by 3 per cent compared to the previous year.

43. During the third quarter of 1994, skimmed milk powder production increased significantly, showing a welcome recovery and relieving the normal seasonal shortages that existed in the winter
months. The consumption of skimmed milk powder increased 12 per cent when compared to the second quarter. Exports amounted to 210 tons and imports to 370 tons. Stocks of skimmed milk powder were further reduced to 1,261 tons.

44. Production of whole milk powder increased by 329 tons during the third quarter of 1994. Consumption decreased further by 207 tons. 360 tons of whole milk powder were imported and 794 tons were exported. Stock levels decreased further by 20 per cent.

45. Butter production and consumption increased by 35 per cent and 34 per cent, respectively, during the third quarter 1994, relative to their second quarter levels. However, when compared to the same period last year both figures show a decrease. 295 tons and 716 tons of butter were exported and imported, respectively, during the period under review. Butter stocks decreased by some 15 per cent to 1,162 tons.

46. The production and consumption of cheese for the period July to September 1994 was 7,418 tons and 7,908 tons, respectively. During this period, production increased by 11 per cent and consumption decreased by 3 per cent. Exports amounted to 76 tons and imports were nil. Stocks showed a steady decrease from the beginning of 1994 but remained at very high levels.

Romania

47. The statistical data for the third quarter of 1994 show a stabilization and a slight increase in the production of dairy products while dairy trade remains at the same level.

48. Production of skimmed milk powder increased from 1,400 tons in the second quarter of 1994 to 2,300 tons in the third quarter of 1994. Stocks at the end of the third quarter increased to 1,400 tons compared to 600 tons at the beginning of the quarter. Trade remains insignificant with a slight decrease in imports and a slight increase in exports. Production of whole milk powder decreased but stocks increased due to a slight increase in imports. Exports were nil in the third quarter of 1994.

49. Production of butter increased from 3,600 tons in the second quarter of 1994 to 4,600 tons in the third quarter of 1994. Imports decreased from 1,300 tons to 740 tons. Exports remained prohibited. As a result of increased production, stocks at the end of the third quarter increased to 3,200 tons compared to 1,600 tons at the beginning of the quarter.
50. Cheese production increased from 11,200 tons in the second quarter of 1994 to 13,000 tons in the third quarter of 1994. Imports and exports of cheese were negligible. Stocks increased from 6,700 tons at the beginning of the third quarter to 8,400 tons at the end of the third quarter, mainly due to the increase in production.

Poland

51. Dairy cow numbers continued to decline in the third quarter of 1994 but the rate of decrease diminished. The decrease, as compared with the third quarter of 1993, was of 4 per cent. Consequently, production of milk decreased further in the course of 1994.

52. The structure of domestic dairy production was gradually adjusted to domestic and foreign demand. In the third quarter of 1994, the production of skimmed milk powder decreased by about 40 per cent to 30,000 tons while whole milk powder output remained unchanged at 20,000 tons, compared to the third quarter of 1993. Butter production decreased by 30 per cent (to 35,700 tons) and Cheddar cheese production decreased by 10 per cent in the period under review.

53. There were some changes in Polish imports of dairy products during the third quarter of 1994. There was a decrease in imports of skimmed and whole milk powder and of Cheddar-type cheese, while imports of butter increased to 1,500 tons. Exports of skimmed milk powder (19,500 tons), whole milk powder (5,000 tons) and Cheddar-type cheeses increased in comparison with the third quarter of 1993. On the other hand exports of butter decreased to 2,300 tons.

54. There has been an upward trend in the export price of butter. The average price in the third quarter was US$1,620 per ton and only in one transaction was the butter export price below the GATT minimum suspended price. The export prices of other dairy products remained almost unchanged. The average export price of casein was US$3,320 per ton and US$2,459 on the import side.

55. Stocks of dairy products were at reasonable and manageable levels, reflecting the necessary minimum level of State reserves.

New Zealand

56. Milk production in the 1994/95 season was relatively consistent with the 1993/94 season. Early season production was significantly ahead in the first three months due to good winter pasture conditions
and early calving dates. The early gain, however, was significantly eroded in October and November (normally the seasonal peak), due to uncharacteristically cold weather. As a consequence, milk solids production was 3 per cent down on the production recorded in October 1993. The net result was that production to the end of November 1994 was 2 per cent ahead of that recorded in the corresponding period of 1993. The crucial production months are October through January and much would be dependent on the weather conditions experienced through this period. The earlier and lower seasonal peak resulted in this season’s production milk curve falling below the 1993/94 curve. A mild summer with favourable rainfall would be required to ensure that high levels of production would be sustained through May 1995.

57. The number of cows recorded on animal registers increased by 6.5 per cent between the 1993/94 and 1994/95 seasons. The larger than expected increase was explained by a change in survey series and improved data collection procedures. The absolute increase in cow numbers was, however, 160,000 head, an important contribution to milk production growth. However, the increase in cow numbers was partially offset by the fact that per cow yields were lower through 1994 than the levels recorded in 1993. Climatic conditions remained the major factor contributing to short-term volume changes.

58. The upward momentum of international market prices, which developed strongly in the period from July to October, eased off in November. Though prices were still strong relative to earlier in the year, the tone of the market was less bullish than it had been. Major contributing factors in this change include the rally in the value of the United States dollar relative to European currencies. This had the effect of lowering European export prices when expressed in US dollars. Furthermore, there was an easing of prices in the European domestic market at the time when production began to increase seasonally. Though now expected to plateau, the improvement in market conditions in recent months established a significantly better base line for most products’ prices. This was reflected in major contracts with third parties concluded during the third and fourth quarters of 1994.

59. A number of factors combined over the past quarter to bring about improved market conditions. The most significant of these was a tightening in the availability of dairy products for export from the Northern Hemisphere. This was caused partly by seasonal conditions; a hot summer reduced milk production in Europe and encouraged consumption of liquid milk so that much less butter and skimmed milk powder were produced this year compared to 1993. It also reflected a continued healthy balance in the European dairy market, which was being carefully managed by means of production quotas and subsidies to encourage consumption of surpluses. Notwithstanding recent intervention selling of skimmed
milk powder and reduction of aid levels for butter consumption, EC domestic prices remained healthy and the market stable.

60. The market for skimmed milk powder in Europe had been especially tight with production down compared to 1993. To reflect the underlying shift in values, reduced whole milk powder production is expected in New Zealand and a slight increase in butter and skimmed milk powder in order to capitalize on price increases in this area.

61. A further factor which had been especially positive for the milk powder market was the reduction of availability of milk powder for export from Eastern Europe. This reduction has been partly for seasonal reasons but it also reflected ongoing structural adjustments to the dairy industries in those countries as farmers, facing low prices, sold less and less milk off their farms for processing. Reduced product availability of products from Europe coincided with the period of low seasonal availability from both Australia and New Zealand. Those buyers who had not covered their positions well forward found it difficult to secure their needs and had been bidding prices up. This was particularly the case for skimmed milk powder where very bullish conditions emerged in the course of the last quarter.

62. The markets for butter and butter oil also strengthened, albeit from a very low base. This was in large part because of the clearance through the market of earlier year supplies and stocks at low prices following the suspension of the IDA minimum prices for butter and butter oil. The market was now reasonably well poised with some opportunities becoming available to increase prices in selected markets. Demand was however still thin and with much business still to be transacted.

63. Cheese markets had been the least affected by the generally positive market trends but were showing consistent strength. They would benefit from a further across-the-board cut in European export subsidies made at the beginning of July.

64. The market softness and progressive weakening of prices which characterized much of the 1993/94 season had now ended and indeed been reversed. The more positive trend, however, only emerged through the third quarter of 1994 and a comprehensive lift in market returns was not achieved in the fourth quarter due to the reversal of fortunes brought about by exchange rate movements. It remained to be seen where the currency levels would settle. Notwithstanding exchange rate movements, there were good reasons to believe that the current improvement in the market situation and prices could be sustained.
65. On the supply side, underlying conditions in major exporting countries meant that the internal and international markets were soundly based. These conditions should prevail well into 1995. Demand was good, especially for milk powder. The butter market was more problematic because of the low number of buyers for major volumes available for export from New Zealand and Australia.

66. The indicative export prices in the fourth quarter of 1994 were as follows:

<table>
<thead>
<tr>
<th>Product</th>
<th>US$ per ton f.o.b.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skimmed milk powder</td>
<td>1,750-1,850</td>
</tr>
<tr>
<td>Whole milk powder</td>
<td>1,600-1,750</td>
</tr>
<tr>
<td>Butter</td>
<td>1,300-1,450</td>
</tr>
<tr>
<td>Butter oil</td>
<td>1,480-1,700</td>
</tr>
<tr>
<td>Cheese</td>
<td>1,800-2,000</td>
</tr>
</tbody>
</table>

67. The most recent quarterly review of the milk solids value set by the New Zealand Dairy Board occurred in October. The advance price set at the commencement of the 1993/94 season was raised from $NZ 2.40/kg. milk solids to $NZ 2.60/kg. milk solids ($NZ 4.52/kg. milk fat). The increase of 20 cents represented the improvement in prices over the first half of the season and reflected the expectations that the firmness achieved to date would persist. The movement in international demand and in the resultant change in product mix should occur in the first half of 1995. The price benefits as well would apply in the latter stage of the season. Earlier season expectations of achieving a final milk solid value of $NZ 2.90/kg. still seemed to be realistic, but much depended on exchange rate factors aforementioned as well as the additional offsetting effects experienced by the rapidly appreciating New Zealand dollar.

68. In general, the price outlook was for a general plateauing of international prices around current levels. These prices were underpinned by a healthy supply/demand position but remained at the mercy of exchange rate movements. For the immediate future a great deal would depend on the continued competitive interaction between exporters. Major downside risks remained, given uncertainty in standard commodity markets of the CIS, the Middle East and North Africa and, moreover, for New Zealand, a deterioration in terms of trade which might eventuate given the strengthening currency.

Japan

69. As a result of the hot weather during the summer of 1994, demand for drinking milk increased considerably, which in turn led to a sharp decrease in the production of dairy products. The sudden
rise in demand for skimmed milk powder had consequently made its market situation rather difficult since the beginning of the autumn. In order to meet the demand, the LIPC decided to import 13,000 tons of skimmed milk powder in November. In addition, the milk producers organization decided to change the milk production target from the 2.9 per cent reduction level of last year to a 1.9 per cent reduction level this year with the aim of promoting milk production. Regarding the butter market, the supply/demand situation continued to ease off and butter stocks remained at a high level.

70. Comparing the third quarter of 1994 with the same period of 1993, total milk production fell by 2.9 per cent. The demand for drinking milk increased by 9.4 per cent, however, milk used for processing dairy products decreased by 22.4 per cent. Consequently, the production of butter and skimmed milk powder also decreased sharply, by 44 per cent and by 29.2 per cent, respectively. In contrast, due to the continuing demand for cheese, its production increased by 3 per cent.

71. In the third quarter of 1994, imports of skimmed milk powder increased by 2.1 per cent to 18,000 tons (mainly destined for animal feed) in comparison with the same period of the preceding year. The average import price of skimmed milk powder for human consumption remained stable compared to the second quarter of 1994. However, compared to the same period of last year, both the average import price of skimmed milk powder for human consumption and that for animal feed fell sharply (by 12.9 per cent for human consumption and 26.1 per cent for animal feed).

72. Butter imports decreased by 29.9 per cent in the third quarter of 1994. The price of butter imports apparently bottomed out in the last quarter of 1993. However, there was a 2.6 per cent fall in the average import price in the third quarter of 1994 compared with the second quarter.

73. Compared with the same period of last year, natural cheese imports increased by 19.5 per cent in the third quarter of this year while processed cheese imports remained stable. Compared with the previous quarter, the price of natural cheese imports remained stable, whereas that of processed cheese increased by 4.7 per cent. Compared to the same period of last year, the price of natural cheese imports increased by 3.4 per cent, whereas that of processed cheese remained stable.

Hungary

74. In the third quarter of 1994, the Hungarian dairy market was characterized by the continuation of the declining trend of overall production. However, domestic consumption and imports increased slightly in the period under review.
75. Skimmed milk powder production remained stable in the third quarter of 1994 compared to the same period in 1993, but output increased compared to the second quarter of 1994. Exports amounted to 1,200 tons in the period July to September 1994, destined to Japan. Domestic consumption and imports in the third quarter of 1994 remained stable compared to the second quarter of 1994. Stocks at the end of the third quarter of 1994 were unchanged in comparison with their level at the beginning of the quarter.

76. In the third quarter of 1994, a shift from the production of whole milk powder to that of skimmed milk powder was noticeable. Consequently, production of whole milk powder in that period was halved in comparison with the output of the second quarter. Exports were negligible compared to the export volume of 1,600 tons in the third quarter of 1993. Stocks of whole milk powder at the end of the third quarter of 1994 were unchanged compared to their level at the beginning of the quarter.

77. Butter production dropped by 30 per cent to 2,800 tons in the third quarter of 1994, both compared to the third quarter of 1993 and to the second quarter of 1994. Exports declined further to 300 tons reaching only one third of the level of exports during the third quarter of 1993. For the first three quarters of 1994, exports reached only 800 tons compared to 3,900 tons exported in the first nine months of 1993. Imports increased to 200 tons in the third quarter of 1994, compared to zero exports in the third quarter of 1993 and to 100 tons in the second quarter of 1994. Export prices in the third quarter of 1994 ranged between US$1,300 and US$2,000 per ton f.o.b. with an average price of US$1,650 per ton. Export prices in October 1994 averaged US$1,996 per ton f.o.b.

78. Production of cheese declined further in the third quarter of 1994 to 10,000 tons compared to 12,600 tons produced in the same quarter of 1993. Exports decreased to 2,700 tons compared to 4,200 tons exported in the third quarter of 1993, but increased compared to the 2,000 tons exported in the second quarter of 1994. Imports decreased to 1,400 tons compared to 3,400 tons imported in the third quarter of 1993, but increased compared to the volume of 1,000 tons imported in the second quarter of 1994. Stocks at the end of the third quarter of 1994, at 7,600 tons, were lower than their level of the beginning of the quarter but they were 25 per cent higher than their level one year earlier.

European Communities

79. The market situation in the dairy sector in the European Union was positive and stable with supplies just about adequate to meet demand. Both butter and skimmed milk powder prices had increased
since the previous meeting in September and were beginning to show signs of a seasonal decline as pre-Christmas demand was satisfied and milk deliveries began to pick up.

80. Milk deliveries in the period January to September 1994 were lower than in the corresponding period of 1993. Butter and skimmed milk powder production were also lower in that period while whole milk powder and cheese production were above 1993 levels. Production in the EC dairy sector in the first nine months of calendar year 1994 and in the first six months of quota year 1994/95, compared to the corresponding periods of calendar year 1993 and quota year 1993/94, was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Calendar year</th>
<th>Quota year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>January-September 1994</td>
<td>April-September 1994</td>
</tr>
<tr>
<td>Milk deliveries</td>
<td>- 1.0 %</td>
<td>- 1.3 %</td>
</tr>
<tr>
<td>Production</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skimmed milk powder</td>
<td>- 9.7 %</td>
<td>- 11.8 %</td>
</tr>
<tr>
<td>Other milk powders</td>
<td>+ 3.3 %</td>
<td>+ 3.8 %</td>
</tr>
<tr>
<td>Butter</td>
<td>- 5.0 %</td>
<td>- 5.7 %</td>
</tr>
<tr>
<td>Cheese</td>
<td>+ 1.1 %</td>
<td>+ 0.6 %</td>
</tr>
</tbody>
</table>

81. In the period April to September 1994, deliveries were about 1.5 per cent below the estimated quota. Deliveries in October and November 1994 were higher than in the corresponding months of 1993. However, some estimates suggested that milk deliveries in the period January to October 1994 were only 0.8 per cent below the 1993 figures.

82. Demand for fresh products was strong, confirming the trend of increasing consumption. Cheese consumption also continued to increase. Butter consumption was stable in the first three quarters of 1994 and the trend was for a slightly increasing butter consumption.

83. The butter market was firm with prices averaging 96 per cent of the intervention price. The intervention price was 3 per cent lower than in December 1993 but market prices had not yet followed the intervention price. Intervention purchases of butter were practically non-existent at this time and total butter purchases in 1994 up to November amounted to 21,000 tons, a decrease by 30 per cent compared to the same period in 1993. For the period January to November 1994, demand for butter for the pastry and ice-cream sector was about 9 per cent higher than in 1993. The total volume of butter allocated to this industry was about 428,000 tons by November 1994.
84. Skimmed milk powder prices peaked at the end of October 1994 at about 109 per cent of the intervention price. However, since then prices had fallen back to about 104 per cent of the intervention price. There had been no intervention purchases of skimmed milk powder since 31 August 1994; total purchases of skimmed milk powder amounted to 60,000 tons. About 3,000 tons of skimmed milk powder had recently been sold from intervention stocks for use in the animal feed sector at ECU 1/100 kgs. above the intervention price or at ECU 171.2/100 kgs. For the period January to September 1994, the decrease in skimmed milk used for the casein industry and in the animal feed sector was about 5 per cent compared to the same period in 1993.

85. The stocks of dairy products in intervention stores were low. Public stocks of butter were currently at 56,000 tons and private stocks at 90,000 tons. At present skimmed milk powder stocks were at 89,000 tons.

86. The European Union's exports of dairy products in 1994 were considerably below the 1993 levels. However, despite the poor export performance of the European Union, the prices of major products were still quite strong. The percentage reductions in 1994 were the following:

<table>
<thead>
<tr>
<th>Product</th>
<th>Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skimmed milk powder</td>
<td>- 60 %</td>
</tr>
<tr>
<td>Whole milk powder</td>
<td>- 6 %</td>
</tr>
<tr>
<td>Butter</td>
<td>- 45 %</td>
</tr>
<tr>
<td>Butter oil</td>
<td>- 60 %</td>
</tr>
<tr>
<td>Cheese</td>
<td>- 6 %</td>
</tr>
</tbody>
</table>

87. World market prices for dairy products had firmed in the past few months. In a recent tender in Japan, some 13,000 tons of skimmed milk powder were sold at prices in the region of US$2,100 per ton c. and f. Butter prices in North Africa were in the region of US$1,500-US$1,550 per ton c.i.f. India was seeking to buy about 20,000 tons of butter oil. The United States had accepted bids in the context of its Dairy Export Incentive Program for 114,700 tons of skimmed milk powder, 10,800 tons of whole milk powder, 34,000 tons of butter, 3,300 tons of cheese and 14,100 tons of butter oil.

88. Milk deliveries continued to increase in Australia, New Zealand and in the United States. However, despite these increases the world market remained firm for the moment.
89. The European Union's calculated export prices for the fourth quarter of 1994 were as follows:

<table>
<thead>
<tr>
<th>Product</th>
<th>US$ per ton f.o.b.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skimmed milk powder</td>
<td>1,800-2,000</td>
</tr>
<tr>
<td>Whole milk powder</td>
<td>1,700-2,000</td>
</tr>
<tr>
<td>Butter</td>
<td>1,450-1,850</td>
</tr>
<tr>
<td>Butter oil</td>
<td>1,700-2,230</td>
</tr>
<tr>
<td>Cheese</td>
<td>2,000-2,100</td>
</tr>
</tbody>
</table>

90. It was difficult to predict what the coming months would bring but the increases in deliveries in certain regions was giving rise to some concern about the world market. For butter, price levels in the coming months were expected to be determinant of the future trend. The influence of the yield-enhancing hormone bovine somatotropin (BST) was also cause for concern. Since February 1994 BST had been available for commercial use in the United States. The Commission proposed to the Council to maintain the ban on the use of BST in milk production. The Council would soon take a decision on this subject.

Bulgaria (Subsequent to the meeting, the following statement was provided for inclusion in this report.)

91. The figures for production, export and import of dairy products in the third quarter of 1994 were lower than those reached for the same period in 1992 and 1993. This meant the negative developments and trends in this sector of the Bulgarian economy still prevailed and the short-term prospects were also not very optimistic.

92. Production of skimmed milk powder was insignificant and the production of whole milk powder during the third quarter of 1994 was about 200 tons, which was lower than the production in the previous quarter. There were about 400 tons of exports of skimmed milk powder destined to the former Yugoslav Republic of Macedonia. About 2,400 metric tons of skimmed milk powder were imported, mainly from the Russian Federation (1,000 tons), Ukraine (400 tons) and Poland (100 tons). Exports of whole milk powder were negligible. Imports of whole milk powder were at the level of 600 tons, from Germany, Ukraine, the Russian Federation and Greece. There was no production or exports of buttermilk powder, only significant quantities of imports from Germany, Belgium and Ukraine.

93. Butter production was still at a low level of about 500 tons. Imports of butter were 1,100 tons, mainly from the United States, Finland, France, Greece and the Czech Republic. Exports of butter were close to zero.
34. The production and export of cheeses still showed certain negative trends and the short-term prospective did not envisage any revival of this sector. However, there was a certain possibility for a better future for the dairy sector of the Bulgarian economy. In the third quarter of 1994, the production of cheeses was at the level of 9,000 tons, a decrease by 44 per cent compared to the third quarter of 1993. Imports were close to 700 tons, mainly from France, Estonia, Greece, Germany, Denmark and Poland. Exports were at the level of 5,500 tons, an increase of 20 per cent compared to the third quarter of 1993. The main destinations were Greece, Macedonia, France, Lebanon, the United States, Australia and Germany.

Canada

95. As of 1 August 1994, the Canadian Dairy Commission increased the target return to producers from Can$50.76 to Can$52.28 per hl. of milk containing 3.6 kgs. of butterfat. The processor margin was increased to Can$7.83, up from Can$7.60 per hl. The support price for skimmed milk powder rose from Can$3.498 to Can$3.708 per kg. The support price for butter was maintained at Can$5.324 per kg. A charge of Can$0.12 per hl. was added to the target return to cover costs associated with normal stocks of butter held by the Commission to ensure domestic demand was met, and to cover administrative costs related to the Commission’s domestic marketing activities.

96. On 1 August 1994, the Market Sharing Quota (MSQ) was increased by 2.5 per cent. On 17 August 1994, the MSQ was increased by a further 2 per cent, retroactive to 1 August 1994. A review of year-end milk production statistics, butter stocks and projected domestic requirements prompted the quota increase. Requirements were higher while stocks were lower than anticipated in July 1994. With the increase, the total MSQ for the 1994-95 dairy year was established at 43.7 million hls. containing 3.6 kgs. of butterfat.

97. The Federal Government took decisions on the use of the yield-enhancing hormone bovine somatotropin rbST in Canada. The Federal Government accepted the recommendations put forward by the Standing Committee on Agriculture and Agri-Food. The Government has obtained from the manufacturers of this product a voluntary delay on sale and use of rbST in Canada, until 1 July 1995. As part of the recommendations, a task force made up of consumer, government and industry representatives will use this period to review rbST’s impact on the dairy industry, human health, animal health and genetics, as well as consumer reaction to the use of rbST in the United States. The report from the task force will be presented to the Minister of Agriculture and Agri-Food prior to 1 July 1995.
Monitoring of the Decision to suspend minimum prices for butter and anhydrous milk fat (DPC/PTL/40)

98. 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 the 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 revised document prepared by the Secretariat on the basis of information furnished by participants for the periods May-June 1994, July-August 1994 and September-October 1994 (DPC/PTL/W/146/Rev.1). This document will be further revised as new information becomes available.

Transitional arrangements with respect to the entry into force of the International Dairy Agreement

99. An ad hoc meeting of countries having indicated their intention to participate in the new International Dairy Agreement was held. A Decision, regarding transitional arrangements, was agreed upon and distributed as document L/7586.

Adoption of report to the Council

100. The Committees agreed that a summary report of the discussions at the present session would be submitted to the Council. This report was subsequently circulated as DPC/PTL/46.

Procedure to be followed for adoption of the report of the sixtieth session

101. It was decided that if no corrections were received by the Secretariat within thirty working days following the date of distribution of the draft report of the current meeting, the report would be deemed approved. Any corrections received by the Secretariat within that period would be communicated to the participants. Subject to any other comments by a participant within fifteen working days following the date of circulation of such corrections, the revised report would be deemed approved.

Date of the next meeting

102. In light of the Decision of 12 December 1994 on the application of the International Dairy Agreement (L/7568), the first meeting of the Committee on Certain Milk Products has been tentatively scheduled for 20-21 March 1995.