Introduction

1. The three Protocol Committees held a joint session on 11 December 1989, to discuss matters relating to the operation of the three Protocols.

Adoption of the agenda

2. The Committees adopted the following agenda:

A. Adoption of report on the thirty-ninth session

B. Information required by the Committees:
   (i) Replies to questionnaires (respectively
       Questionnaire 1: Certain milk powders
       Questionnaire 2: Milk fat and
       Questionnaire 3: Certain cheeses)
   (ii) Summary tables
   (iii) Other information

C. Transactions other than normal commercial transactions

D. Sales under derogation

E. Review of the market situation for products covered by the three Protocols

F. Adoption of report to the Council

G. Other business

90-0398
Adoption of report on the thirty-ninth session

3. The report of the thirty-ninth session was adopted as amended and distributed in document DPC/PTL/7.

Information required by the Committees

(a) Replies to Questionnaires 1 to 3

4. The Committees reviewed the replies to Questionnaires 1 to 3 and requested participants who had not yet submitted such information in respect of the third quarter of 1989 to do so without further delay. They were also requested to provide the necessary information in respect of the fourth quarter of 1989 by 15 March 1990, at the latest.

(b) Summary tables

5. The Committees took note of the summary tables based on information provided by participants in Tables A and B of the questionnaire in respect of skimmed milk powder and whole milk powder, milk fat and cheeses in the first three quarters of 1989 and issued respectively in documents DPC/PTL/W/11, DPC/PTL/W/12 and DPC/PTL/W/13. The Committees were informed that these figures would be further updated as soon as more recent information was made available.

(c) Other information

6. The Committees took note of the information which the secretariat had compiled on production, trade, stocks and consumption of dairy products in the United States. Data related to the third quarter of 1989 and also gave forecasts for the fourth quarter, as well as the whole of 1989.

Transactions other than normal commercial transactions

7. The representative of Australia informed the Committees that two transactions involving food aid were undertaken by his country during the third quarter of 1989. The first was 200 tons of skimmed milk powder of the value of US$381,800 supplied through the World Food Program to the Philippines and the second was 600 tons of skimmed milk powder of the value of US$1.15 million to Uganda through the same agency.

8. The Committees took note of the information provided by Australia.

Sales under derogation

9. The Committees noted that no sales of milk powders, milk fat and cheeses had taken place under derogations due to generally improved market conditions in the third quarter of 1989.

Review of the market situation for products covered by the Protocols

10. In Argentina, the dairy sector had undergone certain important changes in the 1980's as compared to the 1970's. Despite these changes, the
situation had stabilized in recent years. Among these changes were a
decrease in the total number of dairy cows; an increase in the yield per
cow; a decrease in the number of small farms; and an increase in the
production of milk in the early eighties, followed, however, by a decrease
in calendar year 1988.

11. These changes had made the dairy sector more efficient, with smaller
farms producing quantities less than 40 kgs. of milk fat per hectare per
year with a tendency to disappear progressively. Total milk production in
1988 was 6.47 million metric tons with 2.50 million dairy cows. The number
of small farms in the dairy sector totalled 35,000. The dairy industry
consisted of 300 plants, with 21,000 litres of milk per plant. Dairy
production represented 12 per cent of the gross product of the food
industry and was one of the most important segments of the agrarian
economy.

12. During the first quarter of 1989, the situation was characterized by a
decrease in production and a drop in prices effectively received by the
producers and an increase in exports. In the second quarter, the situation
in the dairy sector was rather difficult due to hyper-inflation which
affected relative prices. In the third quarter (as of September) a new
economic plan was introduced which enabled producers to recover their
prices effectively. Milk production showed a steady increase from July to
October, and a continued increase was registered in the exports of dairy
products which helped to offset the fall in domestic consumption.

13. As regards the exports of different dairy products, the following
picture could be obtained:

<table>
<thead>
<tr>
<th></th>
<th>1st quarter</th>
<th>2nd quarter</th>
<th>3rd quarter</th>
<th>Destination</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Whole milk</td>
<td>US$7 million</td>
<td>US$2.16 million</td>
<td>US$28 million</td>
<td>Brazil, China, Iraq, Belgium</td>
</tr>
<tr>
<td>powder</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Butter</td>
<td>601 tons</td>
<td>1,480 tons</td>
<td>2,730 tons</td>
<td>Brazil, Chile, Mexico, Netherlands</td>
</tr>
<tr>
<td></td>
<td>(US$800,000)</td>
<td>(US$2.2 million)</td>
<td>(US$5.02 million)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>at US$1,330</td>
<td>at US$1,500</td>
<td>at US$1,840</td>
<td></td>
</tr>
<tr>
<td></td>
<td>per ton</td>
<td>per ton</td>
<td>per ton</td>
<td></td>
</tr>
<tr>
<td>(iii) Condensed</td>
<td>US$145,000</td>
<td>US$39,000</td>
<td></td>
<td>Jamaica, Bolivia, Paraguay, Chile</td>
</tr>
<tr>
<td>milk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>powder</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iv) Skimmed</td>
<td>US$10.42 million</td>
<td>US$5.8 million</td>
<td>US$9.33 million</td>
<td>Brazil, Algeria, Chile, Jamaica,</td>
</tr>
<tr>
<td>milk powder</td>
<td>at US$1,530</td>
<td>at US$1,760</td>
<td>at US$1,800</td>
<td>United States, Canada and Japan</td>
</tr>
<tr>
<td></td>
<td>per ton</td>
<td>per ton</td>
<td>per ton</td>
<td></td>
</tr>
<tr>
<td>(v) Cheeses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
|                  | During the first 9 months of 1989, cheese exports increased by
|                  | 39.8 per cent - totalling 9,741 tons compared to 6,965 tons in the
|                  | corresponding period of 1988. The value of these exports was
|                  | US$26.70 million and the main destinations were Brazil, the United
|                  | States, Canada and Japan. |
14. In reply to a question by the spokesman of the Community, the Argentine delegate confirmed that milk production had decreased in 1988 due to acute drought conditions and the decline had continued through 1989. Answering another question by New Zealand as to what proportion of total domestic production (in the form of different dairy products) was consumed domestically and what proportion was exported, he provided the following information for 1988 and 1989:

<table>
<thead>
<tr>
<th>Product</th>
<th>1988 Production</th>
<th>1988 Exports (tons)</th>
<th>1989 Exports (tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whole milk powder</td>
<td>85,100 tons</td>
<td>13,700 tons</td>
<td>20,700 tons</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(US$36 million)</td>
</tr>
<tr>
<td>Butter</td>
<td>36,091 tons</td>
<td>779 tons</td>
<td>4,811 tons</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(US$8 million)</td>
</tr>
<tr>
<td>Condensed milk</td>
<td>7,374 tons</td>
<td>281 tons</td>
<td>...</td>
</tr>
<tr>
<td>Skimmed milk powder</td>
<td>21,927 tons</td>
<td>10,687 tons</td>
<td>15,300 tons</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(US$25 million)</td>
</tr>
<tr>
<td>Cheese</td>
<td>65,461 tons</td>
<td>4,156 tons</td>
<td>...</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(US$25 million)</td>
</tr>
<tr>
<td>Casein</td>
<td>1,011 tons</td>
<td>617 tons</td>
<td>416 tons</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(US$1.96 million)</td>
</tr>
</tbody>
</table>

15. Australian milk production continued to recover in 1988/89 from the drought conditions which had led to a decline of 1 per cent in 1987/88. It was estimated to be 6,288 million litres in 1988/89 as against 6,127 million litres in 1987/88. National milk production in the July-September quarter of 1989 was 1,495 million litres as compared to 1,509 million litres in the same period of 1988. The recovery was expected to continue and production was forecast at the same level of 1988/89.

16. As regards the world situation, the fall in world production of milk that was experienced in 1987 had largely been reversed and production was once again increasing. With the exception of some countries such as New Zealand, Finland and Ireland, all other major producing countries had shown an increase in production. In 1989, the increase had not been as expected due mainly to poor seasonal conditions in the EC and New Zealand and high feed prices in the United States in the autumn. In 1990, however, more favourable seasonal conditions in the Community and strong consumer demand in the United States together with the possibility of the introduction of bovine somatotropin should expand production.
17. The situation with regard to skimmed milk powder/buttermilk powder was that production in July-September 1989 at 30,800 tons was 8.8 per cent up on the corresponding 1988 period. The bulk of the increase was in skimmed milk powder which went up to 29,100 tons from 26,800 tons in the same quarter of 1988. In 1988/89, production of these two products was 126,800 tons as compared to 127,800 tons in 1987/88. Skimmed milk powder was marginally lower at 119,000 tons from 120,000 tons in 1987/88, while buttermilk powder production was 7,700 tons as compared to 7,800 tons in 1987/88. Domestic sales fell in 1988/89 for both these products: skimmed milk powder by 9.9 per cent from 46,500 tons to 41,900 tons and buttermilk powder by 26 per cent from 1,800 tons to 1,300 tons. Exports were about 73,900 tons as against 77,400 tons in 1987/88 and in 1989/90 were forecast to be 83,500 tons (skimmed milk powder 82,000 tons and buttermilk powder 1,500 tons). Closing stocks for 1989/90 were forecast at 10,600 tons (skimmed milk powder 9,100 tons and buttermilk powder 1,500 tons) as against 22,300 tons in 1988/89 (skimmed milk powder 18,800 tons and buttermilk powder 3,500 tons).

18. The world situation was characterized by generally low stocks of skimmed milk powder, with the rapid rise in prices experienced in 1988 levelling off in early 1989, following the prices peaking around December 1988 at US$1,900-US$2,100 per ton f.o.b. The internal EC prices for skimmed milk powder subsequently weakened in October and November in response to relatively weak demand from its internal feed industries and Asian markets. These falls had offset the impacts of refund removals on prices which remained stable around US$1,730-US$1,800 per ton f.o.b. Competition from cheaper East European powders, which were still below US$1,600 per ton, were also affecting market returns.

19. As regards whole milk powder, production in the third quarter of 1989 was 16,000 tons, which was 10 per cent lower than in the corresponding period of 1988. Production for 1988/89 was 68,000 tons, showing an increase of 6.7 per cent on production in 1987/88, but was forecast to decline to 65,000 tons in 1989/90. Domestic sales were expected to increase in 1989/90 by 6.6 per cent from actual consumption in 1988/89 of 15,500 tons to 16,500 tons. Exports in 1988/89 were 48,400 tons and were forecast at a similar level in 1989/90.

20. As regards the world situation, prices of whole milk powder, after moving in line with skimmed milk powder prices for many months, began to attract a milk premium of about US$50 per ton and were currently in the range of US$1,780-US$1,850 per ton. It was expected that the current weaker butter/anhydrous milk fat prices would put pressure on this premium in the future.

21. Australian butter/butteroil (commercial butter equivalent) production in the July-September quarter of 1989 of 21,200 tons was 6 per cent above production for the corresponding 1988 period of 20,000 tons. Total butter/butteroil production for 1988/89 was 92,000 tons as against 94,200 tons for 1987/88. It was forecast to rise to 101,900 tons in 1989/90. On the other hand, domestic consumption in 1988/89 was 50,800 tons, showing a marginal decrease on the 1987/88 level of
51,000 tons, largely due to relative increase in the consumption of dairy blends. In 1989/90, domestic consumption was forecast to increase by 6.2 per cent to 54,000 tons. Exports of butter/anhydrous milk fat in 1988/89 were 52,300 tons and were expected to fall by 1.8 per cent to 51,400 tons in 1989/90.

22. As regards the world situation, expectations of continued price rises for butter had been dampened by a recent lack of demand in export markets, coupled with increased availability of supplies within the EC as product has been released from internal storage. Some major exporters had experienced falls of up to 8 per cent in November, but prices in other markets had been more stable. These price movements had put some pressure on international prices, particularly as the USSR had not been a major buyer recently. However, the removal of refund prefixations and weakness of the United States dollar had propped up price quotations, so future trade was expected to continue at around US$1,750-US$1,800 per ton f.o.b.

23. The production of cheese in July-September 1989 was 41,200 tons, of which 26,600 tons were Cheddar and 14,600 tons non-Cheddar. This represented a decrease of 4.6 per cent over production in the corresponding period of 1988, mainly in the Cheddar-type cheeses. Total production rose significantly from 176,300 tons in 1987/88 (Cheddar 119,900 tons and non-Cheddar 56,400 tons) to 190,700 tons in 1988/89 (Cheddar 121,700 tons and non-Cheddar 69,000 tons). It was forecast to decrease marginally to 187,000 tons in 1989/90. Exports in 1988/89 at 62,100 tons represented a decline of 15.6 per cent on 1987/88 exports of 73,600 tons, but were forecast to increase to 69,000 tons in 1989/90. Domestic sales in 1988/89 were 125,000 tons, but were expected to decrease slightly to 118,000 tons in 1989/90. Australia's imports of cheese subject to the provisions of the cheese tariff quota had, however, continued to fall short of the level available.

24. The buoyancy currently witnessed for most dairy products in the international market was led by a recovery in the cheese market. The cheese market was, however, fairly low-key at present. Internal EC prices had been stable and US prices had risen as per capita consumption had continued to grow. The reduction of refund rates from the end of the year should see some upward movement in prices from the current levels of US$1,900-US$2,000 per ton f.o.b. for bulk Cheddar cheese.

25. In reply to a New Zealand question as to why Australia had followed a different strategy in producing more butter than cheese, the representative of Australia said that it was so in response to different market signals that had been received by Australian producers. Already at the September meeting Australia had expressed its serious concern regarding the dairy policies of the EC. Distorted international price signals as a result of subsidized production in the EC were largely responsible for the present situation. As to the EC comment that Australian policy to increase butter production when there was a persistent decline in world consumption was mistaken, he said that the EC's current export refund levels did not adequately reflect the composition or make-up of the particular dairy products. They effectively provided higher export support per unit of milk
fat/solids non-fat to whole milk products such as cheese and whole milk powder. The result of this was that international prices for products such as cheese were significantly lower relative to butter and skimmed milk powder and it was justified in terms of their milk fat/solids non-fat composition. It was correct that his country was increasing its exports of butter just when the demand was tapering off. In this context, however, the considerable influence of the export subsidies on international prices of dairy commodities could not be overlooked. Australia had on several occasions in the past expressed its concern at the differentials that had arisen in this respect. The EC was consistently getting out of line through its export refunds and sent distorted market signals to other producers.

26. In Bulgaria, milk production continued to fall in the third quarter of 1989. The decline in the first nine months of 1989 was 4.6 per cent as compared to the same period last year. This was the result of a drop in cow numbers, especially in the North Eastern region of the country and a decline in productivity.

27. The output of cheeses in the third quarter showed an increase of 2.7 per cent to 33,800 tons. In spite of this increase, however, cheese production in the first nine months of 1989 was slightly below the level during the same period last year. During this period, the production of white cheese was down by 2.2 per cent to 93,000 tons, while that of Kashkaval was up by 3.2 per cent to 29,000 tons. Exports were slightly down to 6,000 tons in the third quarter, but the drop for the first nine months of 1989 was as much as 13 per cent. The bulk of cheese exports went to the Soviet Union, Iran and the Federal Republic of Germany. Imports of cheese in the third quarter amounted to 100 tons, as against no imports in the same period last year.

28. There were no exports or imports of skimmed milk powder and whole milk powder in the third quarter of this year. However, 2,500 tons of buttermilk powder was imported from the Federal Republic of Germany, as against 1,000 tons imported in the same period last year.

29. Butter production in the third quarter of 1989 was slightly lower than 5,000 tons produced in the same period in 1988. The drop in the first nine months was more significant, by as much as 7.6 per cent. There were no exports or imports of butter in the third quarter.

30. In Japan, milk production continued to increase and during the April-September period showed an increase of 6 per cent as compared to the corresponding period of 1988. Domestic consumption of dairy products also showed an uptrend. The general balance between supply and demand for dairy products was being maintained as a result of the intervention by the LIPC, which had to import 8,000 tons of butter and 8,000 tons of skimmed milk powder to meet additional domestic requirements. The evolution of prices for dairy products was likely to be stable with, however, a tendency to a slight decline.
31. As a result of the increase in milk production, the output of skimmed milk powder increased by 8.8 per cent during the six-month period between April and September 1989. Imports in the first nine months of 1989 at 75,000 tons were 18 per cent lower than the level in the corresponding period of 1988. This decrease was due to an increase in prices for powder used for animal feed purposes, imports of which declined by 28.8 per cent as against imports for human consumption purposes which increased by 8.6 per cent during this period. These prices remained high and in September were 40 to 50 per cent higher than last year.

32. Production of butter increased by 13.2 per cent in the first nine months of 1989 for the same reason as mentioned for skimmed milk powder. Imports totalled 6,500 tons during this period and the average import price was around US$2,000 per ton c.i.f.

33. Cheese production increased by 1.8 per cent in the first nine months of 1989. The upward trend in imports seemed to continue as imports increased by 1.7 per cent during this period. Imports in 1988 had, however, shown an increase of 21.4 per cent over 1987. Import prices remained high and in September were reckoned 15 to 20 per cent higher as compared to September 1988.

34. In reply to a question by the EC regarding the recent trends in import prices, the Japanese delegate indicated that the skimmed milk powder prices since June 1989 had been 40 to 50 per cent higher as compared to their level in the same period last year. Similarly, cheese prices had gone up by 15 to 20 per cent as against their level in the same period of last year. Commenting on the evolution of consumption of various dairy products, he expected the upward trend in consumption of various products to be sustained, although more moderately in the immediate future. No recent consumption figures were available, but data on the consumption of drinking milk suggested that the growth was modest during April-October 1989 in contrast to a 4.9 per cent increase registered in the same period last year. Per capita consumption, however, was markedly lower in Japan than in most European countries.

35. In New Zealand, production of manufacturing milk in the 1988/89 season (ending 31 May 1989), was down by 6.4 per cent on the previous year, due mainly to poor seasonal conditions. For the 1989/90 season, up to the end of October, production was only 0.5 per cent ahead of the same period of the previous season. The final result for the season was closely linked with the production conditions in late summer and autumn. On the basis of a return to more normal weather conditions, an output of between 320-340 million kgs. was considered to be realistic.

36. The final product-mix would depend on how milk production recovered from last season, but emphasis had been placed on expanding whole milk powder production, and to a lesser extent cheese. Production of butter, skimmed milk powder and casein would be adjusted accordingly as the dairy industry continued to pursue the objective of reducing the proportion of milk used in butter manufacture in face of reduced access to traditional markets and the lack of available secure alternative markets.
37. Production of butter (including anhydrous milk fat and fat mixes) in 1988/89 at 246,500 tons compared unfavourably with a level of 280,700 tons in the previous season. In 1989/90, however, it was expected to increase by 10.7 per cent to a level of 273,000 tons. Output of skimmed milk powder, which had dropped by 10 per cent in 1988/89, was expected to increase by 8.4 per cent in 1989/90 at a level of 167,000 tons. The production of whole milk powder in 1988/89 at 189,000 tons was 10.5 per cent higher than in 1987/88, and was expected to increase further by 5.8 per cent to a level of 200,000 tons in 1989/90. Cheese production at 128,000 tons was slightly lower than in the 1987/88 season, but was expected to increase to 131,000 tons in 1989/90. Casein production, which had dipped considerably from 65,800 tons in 1987/88 to 54,500 tons in 1988/89, was expected to increase by 14.7 per cent to a level of 62,500 tons in 1989/90.

38. Butter and butteroil prices had considerably weakened lately due to a lack of new sales and the lingering uncertainty of winter requirements by the USSR. European traders, who had taken positions on butter at earlier price levels in the hope of selling to this market now appeared willing to unload parcels at lower prices. Export prices from the Community at present were in the range of US$1,650-US$1,750 per ton for butter and US$2,050-US$2,200 per ton for butteroil. These developments in the Community had set the position against which other exporters must operate, but there had been no recent sales of significance to international buyers.

39. The skimmed milk powder prices had also eased as a result of lower casein production together with the Community’s progressive reduction of subsidized use schemes for skimmed milk powder. Presently, export prices from the Community were US$1,750-US$1,900 per ton for skimmed milk powder and US$1,800-US$1,950 per ton for whole milk powder.

40. Cheese prices had, however, remained steady due to circumstances earlier in the year whereby EC milk was being channelled into skimmed milk powder/butter. However, as returns for the latter fall, more cheese might be manufactured which could lead to some easing of prices from mid-1990. Present prices for Cheddar/Gouda were in the range of US$2,200-US$2,300 per ton.

41. The representative of the EC pointed out that the Community could not sell certain dairy products on certain markets because of the relatively low export prices offered by New Zealand. It had sold milk powders to Saudi Arabia at prices 7 to 13 per cent below EC prices; 9 to 19 per cent below to Dubai; 12 per cent below to China; 8 to 14 per cent below to Hong Kong; 8 to 10 per cent below to Malaysia; and, 7 per cent below EC prices to Guatemala. The market for milk powders was therefore depressed due to such international sales. Replying, the delegate of New Zealand said that farmers in his country followed the market signals very closely and produced what could be sold at the highest market prices. Since dairy exports were the biggest source of export earnings, efforts were being made to obtain maximum prices for all such exports.
42. Explaining various recent developments in the agricultural sector, the Polish representative said that the system of subsidized consumer prices had been abolished in August this year and as a result prices of all agricultural products were now determined by market forces. The deregulation of prices after forty years' of State control had caused numerous problems for the economy. Prices of several agricultural products had shot up. The Polish Government was, however, committed to bringing normalcy in the economic situation and particularly a stability in the agricultural prices. These goals could only be achieved over a period of time.

43. In South Africa, dairy cow numbers decreased by 11.3 per cent in 1989 to 762,848 head. Milk production in the third quarter of 1989 was 454,576 tons and was expected to increase by 18 per cent to reach a level of 536,567 tons during the fourth quarter. Total milk production in 1989 was expected to increase by 4.7 per cent to 1.89 million tons, while in 1990 it was expected to reach a level of 1.96 million tons. Milk consumption, on the other hand, amounted to 460,161 tons during the third quarter of 1989 and was expected to increase by 5.1 per cent to 483,793 tons during the fourth quarter. The total for 1989 would be around 1.9 million tons.

44. The skimmed milk powder production, as estimated by the Dairy Board, would be 5,551 tons in the fourth quarter of 1989. Consumption was expected to be around 4,652 tons for the fourth quarter. No imports or exports were expected and stocks were likely to reach a level of 5,100 tons by the end of December 1989.

45. The production of whole milk powder was expected to increase from 2,397 tons to 2,626 tons in the fourth quarter. Consumption in the third quarter was a little lower than expected, but in the fourth quarter it was estimated to be around 2,626 tons. Exports during the July-September period were 179 tons, but were expected to decline to 100 tons in the fourth quarter. Stocks at the end of the year were expected to be 1,488 tons.

46. Butter production was 6 per cent lower than expected for the third quarter of 1989. The level could reach 4,937 tons for the fourth quarter. Consumption in the fourth quarter was expected to reach a level of 4,536 tons. About 383 tons would be imported during the fourth quarter. Stocks at the end of December 1989 would be around 1,600 tons.

47. Production of cheese at 12,181 tons in the fourth quarter of 1989 would be 4.9 per cent lower than in the same period of 1988. Consumption was estimated at 11,596 tons or 3.7 per cent more than in the fourth quarter of 1988. No exports or imports were expected and stocks at the end of December 1989 would be around 10,240 tons.

48. In Finland, the Milk Quota Act had been revised for the next year. A major change was the raising of the free quota and smaller penalties for exceeding the quotas. On the other hand, a new Farm Incomes Act had been introduced for the next five years under which export subsidies had been in
general reduced and farmers own responsibilities for financing such costs had been increased. Milk deliveries in the first ten months of 1989 had declined by 1 per cent compared to their level of the corresponding period of last year. Due to good climatic conditions and increased yields per cow in October and November, milk production increased by 8 to 10 per cent. It was estimated that deliveries in 1989 as a whole would increase by 10 million litres or by 0.4 per cent to a total of 2,540 million litres as compared to their level last year. Forecasts for 1990 indicated milk production of a level of between 2,450 and 2,510 million litres.

49. Butter production was expected to increase in 1989 by a small margin, but later to decline substantially in 1990. Consumption in 1989 was 12 per cent lower than in the previous year, and was expected to further drop in 1990. Exports in the first nine months of 1989 totalled 2,000 tons at an average price of US$1,768 per ton f.o.b.

50. Cheese output was likely to increase further in 1990, as was the production of skimmed milk powder. The production of whole milk powder was, however, likely to decrease.

51. In Norway, milk deliveries in the first six months of 1989 were the same as in the same period of last year. In the next four months, however, deliveries considerably picked up and estimates for 1989 as a whole indicated a level of 1,825 million litres, which would be 1.5 per cent more than their level of 1,794 million litres in 1988.

52. Butter production in 1989 was expected to be the same as last year. Consumption of butter, however, continued to decline due to a shift in consumer preference towards "light" products, and in 1989 was expected to be down by 17 per cent compared to 1988. Exports totalled 7,000 tons this year, at an average price of US$1,500 per ton f.o.b. No more commercial exports were expected for this year. However, a lot of 825 tons would be given to Poland as a part of a food-aid programme.

53. Cheese production in 1989 was expected to increase by 10 per cent compared to its level in 1988. Consumption was expected to be up by 4 per cent over the last year. Exports would be 21,000-22,000 tons in 1989.

54. Norway imported 600 tons of skimmed milk powder in the months of August-September this year.

55. In Sweden, milk deliveries during 1988 amounted to 3.3 million tons and the forecast for 1989 was slightly more than a 1 per cent increase.

56. In the third quarter of 1989, production, consumption and exports of skimmed milk powder edged higher than in the same period of last year. Both production and exports of skimmed milk powder were expected to increase in 1989, but consumption was likely to fall somewhat. The average export price in early December was reckoned at US$1,650 per ton f.o.b.

57. A similar trend could be observed regarding the production and export of butter in 1989, although butter exports in the third quarter had taken a slight dip compared to their level of the corresponding period of 1988.
Butter consumption was constantly falling and the drop in the third quarter of 1989 was of a magnitude of 20 per cent compared to its level in the same period of 1988. This trend was likely to continue on dietary and health grounds. The average export price for butter was US$1,690 per ton f.o.b.

58. Production of cheese in each of the first three quarters of 1989 amounted to 27,000 tons, and the forecast for 1989 was 108,000 tons, representing a decrease of 5 per cent over the level of last year. Consumption of cheese in the third quarter of 1989 at 28,000 tons remained unchanged at its level of the same period of last year, and in 1989 might be slightly below the level of 1988. Exports of cheese were expected to remain unchanged, but imports were likely to increase somewhat.

59. In reply to a question by the EC as to what caused a reduction in consumer demand for butter, the Swedish delegate repeated that people were increasingly becoming conscious of their cholesterol levels and butter had become one of the casualties of this consciousness. The delegate of New Zealand, however, took exception to this remark and said that European countries had reacted too negatively to such notions and the danger was too much exaggerated. In any case, recent technological developments had made it possible to manufacture butter and beef products "free of cholesterol", which could be consumed without any real danger to health.

60. In Switzerland, milk deliveries in the first ten months of 1989 at 2.60 million tons were 2.4 per cent more than in the same period last year. Of this total, 720,000 tons of milk were used for direct consumption, and the remaining for processing of different dairy products.

61. Production of skimmed milk powder during the first nine months of 1989 totalled 20,300 tons as against 19,200 tons in the same period last year. This gave an increase of 5.7 per cent. There were no exports or imports. Domestic consumption during this period was slightly lower by 3.8 per cent from 18,600 tons in January-September 1988 to 17,900 tons in the same period of 1989. Stocks were 4,700 tons as against 2,400 tons in the previous year.

62. The output of whole milk powder dropped by 2 per cent from 10,000 tons to 9,800 tons in the first nine months of 1989. Imports had increased from 2,100 tons to 2,400 tons or by 14 per cent, but exports remained the same at the level of 500 tons. Consumption declined by 7.4 per cent to a level of 11,200 tons. Stocks remained unchanged at 1,900 tons during this period.

63. Butter output rose by 7.4 per cent from 28,495 tons to 30,591 tons in the first nine months of 1989. Imports dropped considerably from 4,985 tons to 925 tons this year. In common with other countries, consumption dropped by 4 per cent from 31,926 tons to 30,656 tons this year. Stocks at 6,368 tons were comparable to a level of 6,359 tons in September 1988.
64. Cheese production amounted to 99,200 tons during January-September 1989 as compared to 98,400 tons in the same period last year, showing an increase of 0.8 per cent. Imports of cheese during this period were also slightly higher to a level of 17,900 tons. Exports were significantly higher from 42,300 tons to 45,100 tons during this period. Domestic consumption receded somewhat from 73,400 tons to 72,500 tons during this period. Stocks remained more or less at last year’s level of 22,200 tons.

65. The Community dairy cow number fell in 1989 to 23.1 million from 23.5 million in 1988. Productivity per cow, however, increased from 4,552 kgs. to 4,654 kgs. in 1989. Overall milk deliveries, nevertheless, were down by 0.9 per cent from 99.2 million tons to an estimated 98.3 million tons in 1989 (not including "SLOM").

66. Production of skimmed milk powder in the third quarter of 1989 at 328,000 tons was more or less the same as in the same period of last year. Imports were slightly higher, but exports dropped. Stocks were very low at 5,000 tons.

67. Production of whole milk powder was slightly higher in the third quarter, while exports remained unchanged and domestic consumption increased by about 12 per cent.

68. Output of butteroil dropped more significantly in the third quarter to a level of 28,000 tons as compared to a level of 38,000 tons in the same period last year. Butter production was also low compared to its level in the third quarter of 1988. Imports, exports and consumption of butter also showed comparative falls in the July-September period. In 1989, as a whole, butter would be a big loser. Consumption had fallen by as much as 33 per cent in the third quarter of 1989.

69. Cheese output at 1,119,000 tons in the third quarter of 1989, however, compared more favourably with an output of 1,107,000 tons in the same period last year. Imports were marginally down, but exports were significantly higher. Domestic consumption of cheeses also showed a little drop.

70. Current export prices showed an all-around drop, as was evident from the following ranges:

- Skimmed milk powder US$1,700-US$1,750/ton
- Whole milk powder US$1,750-US$1,850/ton
- Butter US$1,800-US$2,000/ton
- Butteroil US$2,200-US$2,300/ton
- Cheese US$2,100-US$2,200/ton

71. In reply to the Australian question as to what increase in quotas could be expected as a result of 1 per cent increase in the Community's milk quota reserve, the spokesman of the EC said that the increase in the reserve which would be effective retroactively from 1 April 1989, would increase the Community's milk production potential by around 1 million tons a year. The EC's quota reserve would be allocated by member States to
"priority" cases in each country. However, certain counter-balancing measures were also to be adopted, including a 2.5 per cent cut in the intervention price for butter, a 0.75 per cent cut in the intervention price for skimmed milk powder and a 15 per cent increase in the amount of the super levy. This last measure was designed to dissuade farmers from producing beyond their own quotas, while the first two measures were designed to ensure that the operation was budget-neutral. As to the fear expressed that even though the increase of 1 million tons under the quota increases represented only a small proportion of the world production of about 500 million tons, it was still 3.3 per cent of world trade (totalling about 30 million tons) and as such a destabilizing factor, the spokesman of the EC categorically stated that the impact of quota increases on world supplies would be zero and therefore should not be taken seriously. The EC quotas had been quite effective in curbing the potential increase in production.

72. Uruguay's exports of dairy products increased by as much as 49.4 per cent in the first seven months of 1989 as compared to their level in the corresponding period of 1988, due mainly to the improved situation in the international dairy market. Not only was there an increase in the volume of exports, the prices in terms of dollars also increased. While exports of skimmed milk powder were down by 5.3 per cent, prices surged by 45.4 per cent during the first seven months of 1989. On the other hand, both the volume and prices of whole milk powder were respectively higher by 25.9 per cent and 71.6 per cent during this period. Similarly, while butter exports went up by 133 per cent in volume terms, prices showed an increase of 152 per cent. Casein exports dropped by 45 per cent during this period, with a drop in prices of 4.3 per cent. If compared to the prices in 1988, the 1989 prices were almost 75 per cent higher.

73. In response to a comment by the European Community, the representative of Uruguay observed that improved results in the dairy sector could not be attributed to the operation of the International Dairy Arrangement, they were largely due to greater efforts on the part of his Government to redress the situation.

74. In Hungary, the continuous decline in the number of cattle was reflected in the dairy cow numbers which fell from 725,000 in 1985 to 663,000 by the end of 1988. In spite of this drop, milk production increased during this period and stood at 2.8 billion litres in 1988.

75. Production of skimmed milk powder in the third quarter of 1989 was 6,900 tons, about 100 tons higher than in the second quarter, but almost 900 tons more than in the same period of the previous year. Consumption also increased to 5,800 tons, higher than in the same period of last year, which was due to increased use for animal feed, while use for human consumption declined. Only about 200 tons was exported, while there were no imports.

76. The output of whole milk powder dropped to a level of 1,200 tons in the third quarter of 1989 from 1,800 tons in the same period of 1988. Consumption remained unchanged at 1,200 tons, thus keeping stocks unchanged in the third quarter. There were no exports or imports.
77. The production of butter in the third quarter stood at 9,700 tons, which was somewhat lower than in the previous quarter but higher than a level of 8,300 tons in the corresponding period of 1988. Consumption remained unchanged at the level of 8,500 tons. While there were no imports, only 700 tons of butter was exported in the third quarter.

78. The production of cheeses stood at 15,300 tons, the same level which was recorded in the third quarter of 1988. Consumption also increased in the third quarter to 12,800 tons from 11,300 tons in the second quarter. There were no imports, while exports amounted to 3,200 tons, showing an increase of 700 tons over the second quarter.

79. The observer from the Economic Commission for Europe informed the Committees that on 1 October 1989, cow numbers on State and collective farms in the USSR amounted to 28.4 million head, showing a decline of 0.7 per cent compared to October 1988.

80. Milk output in the first nine months of 1989 showed an increase of 1 per cent and might show a 2 per cent increase for the whole of 1989. This relatively modest increase in production was due to reduced feed supplies.

81. Butter production in the first nine months of 1989 showed only a marginal increase of 0.3 per cent, while the output of margarine fell by 4 per cent. There was a sharp drop of 14 per cent in the urban sales of butter during this period which could be attributed to an inefficient marketing system together with the new possibility for producers to sell on the rural local markets at higher prices.

82. Cheese output during 1989 was expected to go up by 1 per cent, whereas the production of milk powders could increase by as much as 2 to 3 per cent.

Adoption of report to the Council

83. Pursuant to Article VII:2(a) of the Arrangement and in accordance with Rule 22 of the Rules of Procedure, the Committees adopted their report to the Council. This was distributed in document DPC/PTL/8.

Dates of the next sessions

84. The next sessions of the Committees shall be held consecutively on 19-20 March 1990, subject to confirmation by the secretariat. The Committees shall meet in a joint session, but separate meetings could be envisaged in the order of Cheeses, Milk Powders and Milk Fat, if it were deemed necessary.