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Special Distribution

International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

Status Report on the World Market for Dairy Products

Note by the Secretariat

Explanatory Note

1. The present note has been prepared by the secretariat in accordance with Article IV:1 of the Arrangement and Rule 29 of the Rules of Procedure, and with the aim of facilitating the work of the Council and the Committees at their meetings in September 1986.

2. In preparing the note, the secretariat based itself mainly on replies to questionnaires, other information submitted by participants and observers as well as various information arising from the operation of the Protocol Regarding Certain Milk Powders, the Protocol Regarding Milk Fat and the Protocol Regarding Certain Cheeses. Furthermore, the secretariat used supplementary information available to it from various national and international sources, notably documentation from the FAO, the UN/Economic Commission for Europe, the OECD, the Commonwealth Secretariat, the Commission of the European Communities, Agriculture Canada and the United States Department of Agriculture.

3. The note provides information on production, trade, prices, consumption and stocks for milk and principal dairy products and covers developments up to and including 1985, as far as possible the first half of 1986, and the outlook for 1986/87. The note should be read in conjunction with the statistical information contained in the following documents:

- DPC/W/53/Rev.2 - Milk Deliveries and Production - Statistical Note
and Corr.1 by the Secretariat
- DPC/P/W/32/Rev.2 - Committee of the Protocol Regarding Certain Milk
Powders - Summary Tables
- DPC/F/W/22/Rev.2 - Committee of the Protocol Regarding Milk Fat -
Summary Tables
- DPC/C/W/30/Rev.2 - Committee of the Protocol Regarding Certain
Cheeses - Summary Tables

The statistical information to be included in the seventh annual report will be based on the documents listed above and any further information subsequently made available to the secretariat. The secretariat intends to prepare the part of the statistical information retained for the annual report and circulate it in an addendum to the present document.

4. Delegations wishing to suggest modifications, corrections, or to provide additional information are invited to make relevant submissions to the secretariat, preferably in writing as soon as possible. Such submissions might cover both the present note, and the statistical information mentioned in paragraph 3 above. It should be noted that the drafting of the present note was completed on 15 August 1986.

TABLE 1

Levels of Minimum Export Prices

	US\$/metric ton f.o.b.	
Pilot products	since 1 October 1981	since 5 June 1985
Skimmed milk powder	600	600
Whole milk powder	950	830
Buttermilk powder	600	600
Anhydrous milk fat	1,440	1,200
Butter	1,200	1,000
Certain cheeses	1,000	1,000

The minimum export prices are fixed for pilot products defined in the Arrangement taking account, in particular, of the current market situation, dairy prices in producing participants, the need to ensure equitable prices to consumers, and the desirability of maintaining a minimum return to the most efficient producers in order to ensure stability of supply over the longer term. Special note should be taken of the fact that new minimum prices for whole milk powder, anhydrous milk fat and butter were adopted on 31 May 1985. Minimum export prices must not be considered as market prices, but merely the floor price levels which the participants have agreed to observe.

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Resumé of the Situation

The economic situation in general

1. World merchandise trade continued to grow in 1985, by 1 per cent in terms of value and 3 per cent in terms of volume. In the first half of 1986, the volume of trade appeared to be growing at the same rate as in 1985. However, compared to 1984, a year of substantial recovery in world trade, the 1985 figures represented a slowdown in trade growth. A key factor behind the slowdown was a levelling off in the pace of economic recovery in the United States and, to a lesser degree, in the Federal Republic of Germany and Japan. World production also increased by 3 per cent in 1985. In 1985, the volume of agricultural production increased by 2 per cent but the volume of world exports of agricultural products declined by 1 per cent and the market disequilibrium was further aggravated. This unfavourable situation for agricultural trade was believed to have persisted in early 1986. Aggregate world merchandise trade was expected to show an expansion of about 3.5 per cent for 1986 as a whole.

2. The trade performance of a majority of the developing areas was particularly disappointing in 1985, with a decline in the dollar value of their aggregate exports and imports by 5.5 and 6.5 per cent respectively, and a further fall in their share of world trade. The oil exporting developing countries continued to be adversely affected by depressed oil prices, which in turn had repercussions on their import demand.

3. The recovery in output influenced the general employment situation. Employment increased rapidly in the United States and Canada, and stopped falling in Europe. However, with continued labour force growth, unemployment rates remained very high in several countries. Unemployment in developing countries was difficult to determine because of data limitations, but it would generally appear that population and labour force grew at a faster rate than growth in output in a number of countries.

4. The industrial countries as a whole were successful in curbing inflation in 1985 and the outlook for 1986 was a further slowdown in the rate of inflation. The weakness of oil and commodity prices and a fall in interest rates contributed to this situation. Despite some progress in reducing inflation in the first quarter of 1986, the inflationary situation in many developing countries remained one of serious concern.

World dairy situation

Production

5. Total world milk production reached the level of 507.5 million tons in 1985, showing an increase of 1.4 per cent over the previous year. Another 1 per cent gain was expected for 1986. The combined cow milk deliveries of Australia, the European Communities (EC), New Zealand, the United States and the USSR, which accounted for about two thirds of world production and the bulk of world trade, increased by less than 1 per cent to a level of 298 million tons in 1985. While Community milk production showed an appreciable decline of more than 2 per cent from 1984 to 1985, this was more than outweighed by a strong increase of more than 6 per cent in United

States milk production and a further substantial increase in the USSR. Continuing favourable weather and feed conditions in Australia and New Zealand resulted in further increases in milk deliveries in these countries throughout 1985, but the increases were less than in the preceding period. Forecasts for milk deliveries in major producing countries in 1986 indicated an increase of less than 1 per cent, with an increase of 2 per cent expected for the USSR, and increases of less than 1 per cent or even a slight decline expected for other countries. However, preliminary data for the first months of the year showed substantial increases in milk deliveries in Australia, New Zealand, the EC and the United States. Hopefully, the various measures implemented to limit milk deliveries or discourage any further increase in production might produce results during the remainder of 1986. There were nevertheless reasons to believe that milk supplies would again be excessive in 1986 and that surplus stocks of some dairy products would continue to increase as milk production would be favoured by abundant feed supplies at low prices, and as demand notably of butter, faced strong competition from vegetable fats.

6. While milk production had increased in a number of European countries outside the EC in 1985, it declined in others and efforts made to curb production had to some extent been successful. In 1986, production continued its downward trend in most of these countries. The declining trend in Canadian production was reversed in the second quarter of 1986 and total production for the year was expected to be above the level of recent years. Japanese milk production continued to increase in 1986. Milk production in Argentina and Uruguay which had been low in recent years recovered somewhat in 1985 and there were some increases in other Latin American countries as well. In Africa, shortages of feed and difficult economic conditions continued to influence adversely milk production in 1985, with South Africa being the main exception. Overall milk production was down by nearly 5 per cent for the region as a whole in 1985, but milk output had somewhat picked up in Egypt, Ethiopia, Morocco and Tanzania.

7. Milk production in a number of developing countries in Asia expanded at an annual rate of 4 per cent during recent years. Developments in India were of particular importance, with a cow milk production of 17 million tons and a total milk production of nearly 40 million tons in 1984. The progress was also impressive in the case of China, but Chinese milk production had not yet reached a level of 5 million tons in 1985. China's dairy development policy was ambitious, however, aiming at a substantial increase in production.

8. World production of butter was estimated to be 7.6 million tons in 1985, which was about 1 per cent down from a year earlier. Aggregate production for the participants in the International Dairy Arrangement declined by 3.7 per cent to a total of 3.06 million tons in 1985. Substantial reductions were recorded for the EC and other European countries, Australia and Canada and there was also a slight reduction in New Zealand butter production. The decrease in world output took place despite a strong recovery in the United States and some other countries. Although Community butter production was initially expected to fall in 1986, preliminary actual figures for the first half of the year indicated a significant increase in Community butter supplies. Figures for North America and Japan also indicated that the availability of butter would be even greater than in 1985. In spite of a further decline in butter

production in European countries outside the EC and production in Oceania at the level of last year, total world supplies of butter might again substantially exceed demand in 1986. World cheese production reached a total of 12.8 million tons in 1985 and was expected to continue its upwards trend and to increase by another 2 per cent in 1986, notably due to further increases in production in the United States and Australia. Total world production of skimmed milk powder was again lower in 1985, amounting to 4.2 million tons. For the first few months of 1986, substantial increases in production were reported for the EC and North America. This would more than outweigh a decline in Australia and some European countries and world skimmed milk production was expected to increase in 1986.

9. Unusually high radiation levels in pastures in some parts of Europe resulting from the Chernobyl accident caused great concern to producers, processors and consumers of milk and dairy products in the spring of 1986. Demand for fresh milk fell temporarily in many areas and more milk had to be processed resulting in increased production notably of butter and skimmed milk powder. A substantial part of this unexpected production went into intervention stocks adding to the already burdensome surplus.

Consumption

10. Generally, consumption of liquid milk had lagged behind production in a number of major producing countries, thus increasing the quantity of milk available for industrial processing. This trend had been accentuated by consumer preference for low fat milk. Total world consumption of butter showed a slight increase in 1985, and was expected to increase further in 1986 as a result of numerous measures adopted to promote consumption in many countries. Continued declines in some countries were more than offset by increases in consumption in the EC, the United States and New Zealand. World consumption of skimmed milk powder, which had expanded in 1984 compared to 1983, decreased in 1985 with a marked decline in some developed countries. The bulk of consumption in the EC was for animal feed. In 1985, the Community feed use of surplus milk declined from the preceding year, but still amounted to nearly 2 million tons of skimmed milk powder or twice the global level of international trade in this commodity. In other countries of Western Europe, consumption increased somewhat while in Eastern Europe it remained stable. In Japan, consumption remained almost unchanged in 1985. In the United States the consumption of skimmed milk powder recovered in 1985 reaching a level of 346 thousand tons. In the USSR, consumption continued to increase in 1985. Cheese consumption increased by another 3 per cent in 1985, and was expected to grow further in 1986.

11. In Western Europe, skimmed milk powder and liquid skimmed milk were mainly used for animal feed and their use was being subsidized. The EC applied a number of measures to promote consumption of skimmed milk powder as feed. In the United States, domestic consumption of milk and dairy products was expected to rise by 4 per cent in 1986 because of growth in population and per capita income, lower real prices for dairy products and the national dairy promotion programme. Consumption of butter and cheese was supported in many countries by advertising campaigns, welfare distribution programmes, sales at reduced prices to dispose of surplus stocks and, in the case of butter, making the product competitive with

vegetable fats. In some countries, the price relationship between vegetable fats and butterfat was maintained by taxing the former or subsidizing the latter. The prices of vegetable fats remained lower in most instances. While an increase in margarine consumption was often accompanied by a decline in consumption of butter, trends in butter consumption also depended on factors other than price, such as consumer preference, in particular, and dietary considerations. It should also be noted that in some countries consumption declined in the whole fats sector.

Trade

12. While the market for some dairy products had shown appreciable improvement throughout the second half of 1985 and early 1986, the market for butter and anhydrous milk fat continued to be adversely influenced by excessive supplies and burdensome stocks in 1986. World exports of butter totalled about 750 thousand tons in 1985, showing an increase of around 5 per cent over the level of the previous year. This was mainly due to substantially increased sales by Australia and New Zealand, but some smaller exporters also increased their sales, such as Norway and Uruguay. There was a substantial reduction in butter exports from other participants, notably the EC and Finland, and also United States butter exports were almost one third lower in 1985 than they had been in 1984. Initial forecasts for 1986 had suggested a slight increase in butter exports but the butter market remained depressed throughout the early part of 1986 causing serious doubts as to whether it would in fact be possible to increase exports. Some particular efforts by the EC to sell old butter with a heavy discount, and by the United States to dispose of butter and cheese under the Food Security Act of 1985 had not produced the results hoped for.

13. There was a decline in international cheese trade from 1984 to 1985, mainly due to lower shipments by the EC. In 1985, world cheese exports totalled about 875 thousand tons. During 1986, trade seemed to be recovering and it appeared that the record level of 1984 would again be achieved. However, international markets for cheese remained very competitive especially for certain qualities of cheese in particular areas.

14. Milk powder exports increased further in 1985, exceeding 1.7 million tons, in spite of a decline in Community sales, which were largely compensated for by larger shipments from the United States, Australia and New Zealand. EC exports of skimmed milk powder were again low during the early part of 1986, while those of Australia, New Zealand and the United States were at or above their levels of the previous year. Import demand for dairy products by some developing countries continued to be low due to difficult economic conditions accompanied by declining oil prices. Imports of dairy products by developing countries were expected to decline further in 1986. Particular restrictions imposed on dairy trade following the Chernobyl nuclear accident also adversely affected dairy trade, notably in Europe.

Food aid

15. Food aid in dairy products had accounted for roughly one sixth of dairy trade in recent years. In 1985, however, there was a decline in total food aid deliveries for skimmed milk powder, whole milk powder and butter oil, partly due to an increase in commercial sales. EC donations of skimmed milk powder and butter oil were significantly reduced in 1985, only to be partly offset by an increase in United States foreign donations of skimmed milk powder.

Stocks

16. Increased milk production and slack demand for most dairy products resulted in further accumulation of stocks in 1986. By the middle of the year Community butter stocks had reached new record levels, amounting to 1.4 million tons at the beginning of July 1986. Apart from the general increase in Community milk supplies, reduced production of cheese, whole milk powder and condensed milk, reduced sales of fresh liquid milk following the Chernobyl accident resulted in more milk being diverted to the processing of butter and skimmed milk powder which in turn boosted intervention stocks. In the United States, commercial stocks of dairy products were again replenished in 1986 after having been low in the middle of 1985; and expectations were for further increases in dairy stocks both in the United States and Canada. Heavy dairy stocks notably of butter in Europe and North America meant that available supplies remained far in excess of market requirements and that markets would remain oversupplied and depressed in the near future. With increasing age, the quality, notably of butter, would be deteriorating, making it increasingly difficult to find market outlets. For Oceania and some European countries, dairy stocks in the middle of 1986 were reported to have generally remained at the level of previous years.

International prices

17. The minimum prices of whole milk powder, butter and anhydrous milk fat, which had remained fixed since 1 October 1981 at US\$950, US\$1,200 and US\$1,440 respectively, were revised downwards in May 1985. The new minimum export prices came into effect on 5 June 1985. Minimum prices of skimmed milk powder and buttermilk powder (US\$600) and those of certain cheeses (US\$1,000) remained unchanged. (Tables 1 and 2 and Graph 1).

18. The slide in dairy product prices, which began in 1982 due to keen competition in the international market continued in 1984 and prices deteriorated further during the first part of 1985. The minimum export prices of anhydrous milk fat and butter were provisionally suspended from 16 November 1984 to 31 May 1985. During that period around two hundred thousand tons of butter was sold at prices below US\$1,200 per ton f.o.b. Both butter and anhydrous milk fat prices remained very depressed in 1986, near the minimum export prices set under the Arrangement. Moreover, certain offers for the sale of butter were reportedly made at less than the minimum price. The price situation and the level of butter stocks continued to cause concern.

TABLE 2

International Prices (1984-1985-1986)

(US\$ per metric ton f.o.b.)

Product	1984				1985				1986			
	January-March	April-June	July-September	October-December	January-March	April-June	July-September	October-December	January-March	April-June	July-September	October-December
Skimmed milk powder ^a	700-760	690-760	640-720	620-720	600-650	630-700	685-800	750-800	812-850	650-740		
Whole milk powder	980-1,100	970-1,100	950-1,050	950-1,000	860-950	850-960	890-1,010	950-1,000	990-1,050	900-1,050		
Anhydrous milk fat ^b	1,700-1,900	1,700-1,800	1,480-1,750	1,440-1,500	1,440-1,500	1,290-1,650	1,200-1,360	1,200-1,300	1,200	1,200		
Butter ^b	1,500-1,680	1,540-1,600	1,200-1,450	1,200-1,300	1,200-1,300	850-1,450	1,000-1,150	1,000-1,200	1,000	1,000		
Cheddar ^c cheese	1,200-1,350	1,150-1,300	1,150-1,250	1,200-1,250	1,150-1,200	1,100-1,430	1,050-1,270	1,000-1,300	1,100-1,380	1,000-1,500		

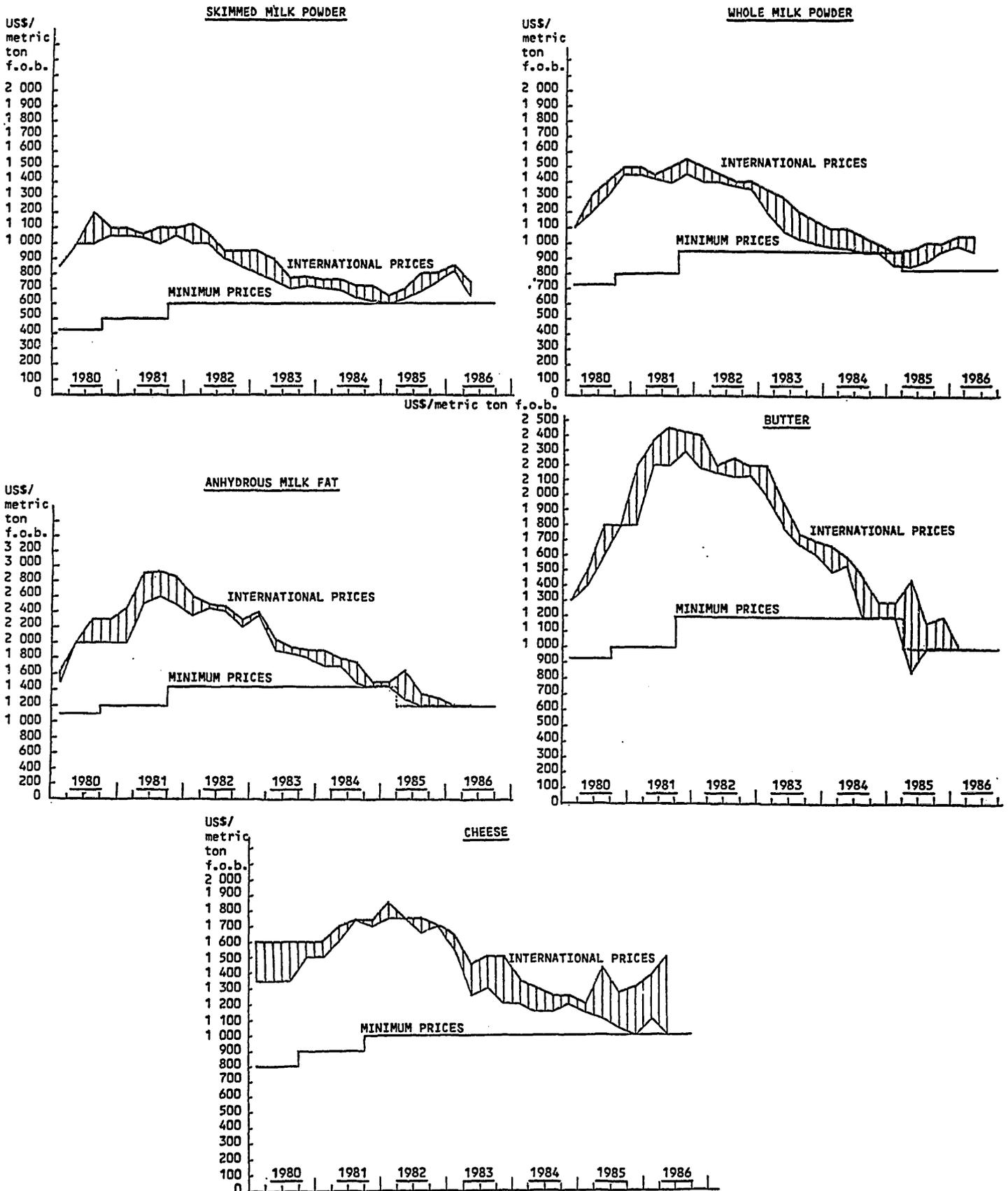
^aMainly skimmed milk powder for human consumption. Some sales of skimmed milk powder for animal feed made according to Article 3:5 of the Protocol Regarding Certain Milk Powders have been made at lower prices than the ranges indicated.

^bThe minimum export prices of anhydrous milk fat and butter were provisionally suspended from 16.11.84 to 31.5.85. During that period, around two hundred thousand tons of butter were sold at prices below US\$1,200/m.t. Up to mid-1986 one hundred thousand tons of old butter had been sold at prices below US\$1,000/m.t. f.o.b. by derogation under Article 7:1 of the Protocol Regarding Milk Fat.

^cSome sales of cheese below normal export quality made according to Article 7:2 of the Protocol Regarding Certain Cheeses have been made at lower prices than the range indicated.

GRAPH 1

International Prices of Dairy Products 1980-1986¹
(US\$ per metric ton f.o.b.)



¹See notes to Table 2.

19. During the third and fourth quarters of 1985, prices of milk powders strengthened and the market for Cheddar cheese remained relatively firm. Cheese prices showed some improvement early in 1986, but were again under pressure of heavy supplies around the middle of the year. Similarly, prices for powder improved appreciably in late 1985 and early 1986. They deteriorated slightly in the second quarter of 1986, but remained well above the agreed minimum export prices. While import demand for milk powders remained relatively strong, the market outlook was clouded by a number of events, such as the introduction and tightening of milk production quotas which might have reduced demand for powder for feed (as farmers might use more fresh milk for feed); the change in the Community procedure for fixing export refunds; and the efforts made by the United States to dispose of dairy product surpluses under the Food Security Act of 1985, although the effects of these events on markets and prices were still difficult to assess.

The Situation for Individual Products

Milk

20. World milk production was around 507.5 million tons in 1985, up 7 million tons or 1.4 per cent from 1984. The combined cow milk output of the EC, USSR, USA, Australia and New Zealand - which accounted for about two-thirds of world production and the bulk of world trade in dairy products - increased by just over 1 per cent to a level of 298 million tons in 1985 (Table 3).

21. Continuing growth but at a lower rate (less than 1 per cent) was forecast for world production in 1986. Preliminary results indicated that output growth had resumed in the EC and Canada, and continued in the USA, Australia and New Zealand - although in all of these countries existing production restraint measures had been reinforced or new measures introduced which should moderate their results for 1986 as a whole. Continuing increases in production were forecast for the USSR, Japan and the Asian developing countries. European producers outside the EC generally forecast static or declining production. Overall it seemed certain that world milk production would continue to exceed existing commercial demand in 1986, adding further to the surplus stock problems in various milk products.

22. Milk production in the European Communities totalled 119.4 million tons in 1985. This was 2.2 per cent less than 1984 production, showing the effects of the quota system introduced by the Community in 1984. (Details of its operation were given in DPC/W/54.) The European Commission forecast a continuing decline in production for 1986, although the signs were that this would be at a reduced rate. Community milk production for the period January-May 1986 was 1.4 per cent up on the same period in 1985.

TABLE 3

Cows Milk Production, Rates of Change in Production, Yield
and Dairy Cow Numbers in Selected Countries

		Milk Production (million tons)	Percentage Change from Previous Year		
			Production	Milk Yield	Dairy Cow Numbers
EC-10	1984	122.30	-1.9	+14.5	-3.5
	1985	119.40	-2.2	-0.5	-2.3
	Forecast 1986	118.64	-0.6	+1.5	
USA	1984	61.43	-3.2	-0.8	-2.4
	1985	65.24	+6.2	+2.9	+2.4
	Forecast 1986	65.89	+1.0		
USSR	1984	97.60	+1.1	+1.3	+0.2
	1985	99.55	+2.0	+2.2	-1.0
	Forecast 1986	102.00	+2.0		-2.0
Australia	1984	6.11	+7.2	+6.5	+0.7
	1985	6.20	+0.2	+7.8	-5.3
	Forecast 1986	6.17	-0.6		
New Zealand	1984	7.70	+13.5	+5.3	+3.6
	1985	7.83	+1.7	+2.9	+1.9
	Forecast 1986	7.80	-0.4		
Japan	1984	7.14	+1.6	+1.1	+0.3
	1985	7.38	+3.3	+1.5	+1.4
	Forecast 1986	7.56	+2.5		

23. Dairy cow numbers in the EC declined by 5.7 per cent in the past two years, to 24.3 million at 1 January 1986. The steepest decline has been in France, with a 9.6 per cent cut. However milk output has not declined at the same rate. Yield per cow decreased slightly in 1985 as the full impact of the "superlevy" on production in excess of quota was felt, but this was probably an isolated result. The Commission assumed an average annual rate of increase in yield per cow of 1.5 per cent. Under the impact of quotas there had also been a slight increase in on-farm utilization of milk.

24. The 1986/87 farm price package, agreed in May 1986, left the quota limits and the target price for milk (ECU 27.84/100 kgs.) unchanged. The co-responsibility levy remained at 2 per cent of the target price. Contrary to the Commission's proposal, no change was made in the intervention prices for butter and skimmed milk powder. The price ratio between fats and solids-not-fat thus remained at 48:52. The superlevy was to be collected twice a year, in order to check excess production early in the season.

25. A further reduction in the overall Community quota of 2 per cent was scheduled for the 1987/88 year and another of 1 per cent for 1988/89. To help achieve this the EC had adopted an outgoers scheme aiming at taking farmers accounting for up to 3.2 million tons of milk out of production in 1986-88. Farmers undertaking to discontinue definitively all milk production were to be compensated at the rate of ECU 4 per 100 kg of milk annually for seven years. Member States were authorized to supplement this compensation payment according to various industry and regional factors.

26. Spain and Portugal joined the European Communities on 1 January 1986, though their integration with the Common Agricultural Policy was being phased over several years. EC milk production quotas were expected to be applied to them from the 1987/88 farm year. Cow numbers in Spain increased slightly and yields went up by 1-2 per cent in 1984 and 1985, giving an average annual production increase for the two years of 1.9 per cent. The estimated total for 1985 was 6.5 million tons. After an 11 per cent decline in 1984, Portuguese production showed a slight recovery to 750,000 tons for 1985.

27. Following a 13.5 per cent increase in New Zealand milk production in 1984, output remained at a level of 7.83 million tons in 1985. The higher level of production resulted from favourable pasture conditions combined with a larger dairy herd. Dairy cow numbers had increased because the profitability of other livestock farming (e.g. sheep) had decreased even more than that of dairying and resulted in a shift in grassland use from sheep to cattle production. In 1986, milk output was forecast to fall by about 0.4 per cent to 7.8 million tons. This assumed a slightly larger dairy herd but lower yields per cow. Deliveries for the first two quarters of 1986 were, however, well up on 1985 levels. The 1986 result should be affected by substantial price cuts for the new (1986/87) season.

28. In June 1986 the New Zealand Dairy Board announced that the combined basic milk fat and solids-not-fat price would be 225 cents/kg. milk fat - down 43.8 per cent from the previous season. This cut was made necessary by deteriorating export returns. The New Zealand dairy industry also

agreed to adopt a voluntary scheme to limit milk supplies in 1986/87. Participating farmers would be paid a fixed amount by the Dairy Board to reduce milk output below a base output level. The moratorium on new entrants introduced by the industry in 1985 was extended into the 1986/87 season and should be reviewed in November 1986. Agreement was reached on the major points of a new price stabilization scheme. The main element was a government guarantee for Dairy Board borrowings up to \$650 million on a commercial basis; \$400 million may be used for price stabilization, \$100 million to help finance 1985/86 trading losses, and \$150 million to redeem on a commercial basis a \$750 million loan from the Reserve Bank, which is repayable over 40 years at 1 per cent interest. These were transitional arrangements for a three-year period, which could enable the Board to supplement payments by up to 110 cents/kg. milk fat, over the current and the two following seasons.

29. Australian production continued to increase in 1985 but at a slower rate (1.5 per cent) than in 1984, to a total of 6.2 million tons. Falling dairy farm incomes, as a result of the depression in international market prices, affected production, with cow numbers falling and the more efficient producers reaching the profit margins of increasing output per cow. Weather conditions in the main dairying areas have also been below average. The outlook for 1986 was for a slight decline in production although first quarter 1986 results showed an increase of 9,000 tons or 0.7 per cent on January-March 1985.

30. New marketing and assistance arrangements came into force on 1 July 1986. The basic objective was to ensure the development of a more efficient and profitable industry, able to respond as quickly as possible to changing market conditions and technology. The new system ended the previous pooling of all export returns and provided incentives for manufacturers to choose the most remunerative products and markets.

The main provisions of the marketing arrangements were:

- (i) Setting-up of a Market Support Fund financed by a levy on all milk produced, including milk for the liquid market; this levy is imposed on the milk fat component and is limited by a ceiling of 45 cents/kg. milk fat or the equivalent of 2 cents/litre of milk. A levy of 35 cents/kg. is being applied from 1 July 1986. Manufacturers exporting prescribed dairy produce (butter/butteroil), Cheddar type cheeses, skim milk/buttermilk powder, casein and whole milk powder) will receive market support payments normally at the rate of 30 per cent of the average export price currently being received for the product, adjusted to a bulk ex-factory basis. Under certain circumstances, a rate other than 30 per cent may be payable; less may be paid when funds are insufficient, more at a time of collapse in world market prices.
- (ii) Setting-up of a Supplementary Market Support Fund aiming at smoothing the transition from the current arrangement to the new one. It will be financed by levies on domestic sales of butter/butteroil and Cheddar-type cheeses at the rate of A\$668 per tonne of butter/butteroil and A\$234 per tonne of cheese. These levies will be phased out over the next 3-4 years.

(iii) Reforming the Australian Dairy Corporation so as to make it more efficient and more autonomous.

(iv) Abolition of the export pooling arrangements on 30 June 1986. It should be noted that the payment of "allowances" for certain transportation and storage costs was terminated on 30 June 1985.

31. Japan's production continued to rise in 1985, going up by 3 per cent to 7.38 million tons. While their returns fell to the lowest point since 1977, producers benefited from declining concentrate feed prices. Results for the first quarter of 1986 showed a continuing expansion with regular monthly gains of 3 per cent on 1985. A downturn in liquid (drinking) milk demand was balanced by an increase in demand for milk for processing, and both cow numbers and yields continued to increase.

32. The guaranteed price for manufacturing milk for fiscal year 1986 (April 1986-March 1987) was reduced by 2.8 per cent from the previous year to 87.57 yen/kg. This price reduction followed a lowering of production costs resulting from a decline in the feed price formula and aimed at averting a recurrence of the over-supply situation. The standard transaction price for manufacturing milk was reduced by 0.9 per cent to 69.54 yen/kg. while the deficiency payment was reduced by 9.4 per cent to 18.03 yen/kg. The basic quantity of milk on which the deficiency payment was payable remained unchanged at 2.3 million tons.

33. South African production was up by 7.5 per cent in 1984, to 1.9 million tons. However, deliveries to dairies were reduced in 1985, reflecting a temporary quota restraint on milk for processing. Support price levels for "industrial" milk were raised by R 1.42/100 kgs. this year. Nonetheless a slight decline in production was forecast.

34. The two-tier pricing system in effect from the start of 1985, and other production restraint measures enacted by Finland (see DPC/W/54) continued to be effective. Final 1985 deliveries were down 3 per cent on 1984, with the decline accelerating in the second half of the year. This took annual production to below the 1981-83 average. Cow numbers continued the declining trend observed throughout the decade. Production in 1986 was expected to remain at, or slightly under, the 1985 level. The current pricing system has been extended until the end of the 1987-88 farm year. Penalties for farmers exceeding their production quota have been raised for 1986 from FIM 1.60/litre to FIM 2.00/litre.

35. Norwegian deliveries (including goatmilk) declined by 4.5 per cent in 1985 to 1.9 million tons. A further slight decline was expected in 1986. The quota limits under Norway's two-tier price system remained unchanged.

36. The recent evolution of production in Sweden showed a 3 per cent decline in 1985, which accelerated towards the end of the year. This appeared to have been the result of the two-price system introduced on a three-year trial basis in July 1985. For 1986 a further production decline of 1.5-2 per cent was forecast. Dairy cow numbers, which had been relatively stable since 1981, were expected to remain so in the near future. Farmers who took part in the system were granted a full home market price for a quota equal to 92 per cent of the largest annual delivery from the farm in the base period 1981-83. For deliveries in excess of the quota the price paid was related to the export price obtained in the market. Those farmers who chose not to take part in the system received the home market price reduced by an export financing fee.

37. Despite quotas, Swiss deliveries rose in 1984 to 3.127 million tons. Some tightening of the system trimmed 1985 deliveries by 3 per cent to 3 million tons, only slightly above the 1981-83 annual average. However for 1986 a slight increase was forecast. The overall milk quota was to be reduced by 750,000 tons to 3.05 million tons, or approximately the level of current deliveries, whereas currently allocated quotas total 3.125 million tons. The basic price for milk was raised by 5 centimes to 97 centimes/kg. from 1 July 1986. It is noteworthy that the reduction in deliveries in 1985 was ten times greater than the drop in total milk production, implying greater retention of milk on-farm in response to stricter quota restraints. This was largely used for calf feeding.

38. Bulgarian production suffered from drought in the first part of 1985, and recorded a decline of 11 per cent for the year. Hungarian milk production declined by 2.5 per cent in 1985 to 2.64 million tons. As in a number of Eastern European countries, cow numbers were decreasing but yield per cow was improving. Dairy cows numbered 709,000 in March 1985, down 3 per cent on a year earlier. Production was expected to show a further decrease in 1986. Romania's dairy herd increased by 2 per cent last year, but production fell by 7 per cent because of a drop in yield.

39. Forecasts of a decline in Polish production of up to 4 per cent in 1985 were borne out by the available figures. The expectation was that this decline would continue throughout the current year. A factor which made the Polish decline this year likely to be larger than elsewhere in Eastern Europe was the drop in cow numbers (down 4 per cent in 1985) caused by small private farmers quitting dairying because of reduced profitability. Yield per cow also fell in 1985.

40. Argentina recorded a slight increase in 1985, but production was expected to remain static or even to decline this year. Uruguay recovered in 1985 from 1984's low but production remained below the 1981-83 average.

41. USSR milk production was up 2 per cent in 1985, despite a 1 per cent reduction in cow numbers mainly as a result of improving yields per cow. After feed scarcity earlier in 1985, favourable weather in the summer and early autumn led to improved hay and silage supplies. This added to the likelihood that milk production would continue to increase over the current year, by a further 1.5-2 per cent to around 102 million tons. For the early months of this year, deliveries were up 5 per cent, and yields per cow by 7 per cent. The effects of the Chernobyl nuclear accident on dairy production could influence the year's results but these effects were difficult to isolate.

42. Elsewhere in Eastern Europe, the 1986 outlook was for little change at best - possibly a slight decline. Weather conditions were unfavourable, and cow numbers were down. No significant change in output was forecast for the German Democratic Republic or Czechoslovakia. In Yugoslavia small farmers found it unprofitable to continue production.

43. In 1985, United States milk production rose 6 per cent to a new record level of over 65 million tons. The production surge carried on into 1986, with first quarter figures up 7 per cent on the corresponding period in 1985. The Dairy Termination Programme came into effect on 1 April 1986. In essence, it offered cash payments to dairy farmers who contracted to get

out of dairying and stay out for five years. The programme was to run until 31 August 1987. According to United States Government information, its effects were felt quickly. In May 1986 cow numbers in twenty-one States selected for monitoring reversed their rising trend and fell to the lowest level since April 1985. Production was still increasing, but at a lower rate - up 2.7 per cent in May on May 1985, compared with year-on-year increases of 10 per cent and more in recent months. Estimates varied as to how effective this programme would be in checking the rise in United States production. Buyout contracts had been made with farmers who in 1985 accounted for 8.7 per cent of total United States milk marketings. The slaughter of nearly a million dairy cows was envisaged. However the timing of producers' exits was uncertain, as was the behaviour of producers not in the programme. There were indications that the latter would continue to expand milk output, encouraged by continued low feed prices and improving, though still low, farm milk prices. There was further scope for increasing yields through the use of bovine growth hormones. On the other hand, returns over feed concentrate prices were forecast to remain below the levels achieved in the early eighties, and this may limit the incentive to expand production. It was forecast that the net effect of the buyout scheme would be to pull back the strong increases of early 1986 to an annual total about 1 per cent up on 1985.

44. Canadian production decreased by 2.7 per cent to just over 8 million tons in 1985. The decline was more marked later in the year. As in some European producers, the system of production quotas which Canada had been early to introduce failed to prevent a substantial output rise in 1985, and last year's downturn - achieved despite a favourable milk/feed price ratio - reflected a tightening of the system. The quota for industrial (processing) milk was cut for August-July 1985/86, and the penalty for over-quota deliveries increased. The quota system was extended for a further five years. The declining trend was, however, reversed in the second quarter of 1986, when production rose 4 per cent on the previous year, and a further 3 per cent rise was expected in the third quarter. Total production for the dairy year 1985/86 was thus expected to be slightly over the quota.

45. Total production in Austria showed a marked increase in 1984 (5.7 per cent) and in 1985 production rose again, though only slightly. However deliveries declined by 2 per cent, indicating greater on-farm use of milk to avoid excess-quota penalties. A "buyout" scheme was in operation and milk prices to producers were reduced at the end of last year. A modest decline in total production and a further decline in deliveries could be expected for 1986. Dairy cow numbers and yields were both reported to be declining.

46. The availability of surplus milk products from northern hemisphere producers has tended to discourage the further development of dairying in some countries with potential for it. Nonetheless dairying was seen as an important element in nutrition and farm income improvement by many developing countries, and a high priority was being given to it in rural development plans. This was particularly true in Asia, which is by far the largest producing group in the developing regions. Asian milk production grew 4 per cent annually, on average, from 1982/84. Dairying had a long tradition in Western and Southern Asia, but more recently also gained importance in several parts of East and South East Asia, most notably in the Republic of Korea, China and Indonesia.

47. In China where a modern dairy industry was being established around the big cities as well as in the north-east provinces, cow milk production had increased substantially since the late 1970's. It still totalled only 4.7 million tons in 1985, but the profit possibilities for individuals in dairying, together with emphasis on increasing milk output in national plans, made steady growth likely to continue.

48. Progress was also impressive in India, the largest milk producer among developing countries. In the 1985/86 dairy year (April/March) milk collection under the Indian dairy development project "Operation Flood", supported by EC dairy food aid and World Bank capital, rose by over a quarter, with milk plants having difficulties coping with producers' supplies during the flush season months. 1985 cow milk production overall was up 2.5 per cent at 16.9 million tons. Buffalo milk production of 21.3 million tons and goat milk at 975,000 tons gave a total milk production of 39.26 million tons in 1985.

49. Efforts to promote milk production had also been made in a number of countries in West Asia, with particular success in Saudi Arabia. Dairy production in Asia had benefited by generally strong demand for milk and milk products, coupled with increased government priority to local dairy development in many countries. In contrast, in Africa and Latin America where policies had not been so conducive to dairy development while demand had been adversely affected by economic recession, milk production had stagnated or even declined in recent years.

50. Production in Brazil fell back from its 1984 peak of 10.4 million tons. Chile, Peru and Venezuela all indicated little change in 1986.

Consumption

51. In the developed countries the demand for fresh liquid milk had been generally stagnant, at best, since the 1960's. The reasons for this included health concerns and competition from other beverages. Demand for animal feeding also slackened owing to the availability of cheaper concentrate feeds. Where there was growth in liquid milk consumption it was usually the result of government subsidies, either at the retail price level or as part of welfare programmes. Low-fat milk and UHT-treated milk and milk drinks were a partial exception in some countries to the general weakness of demand.

52. On the other hand demand for fresh milk was strong in the developing countries reflecting inadequate nutrition levels. It was also pushed by rises in population and income levels, urbanization and associated changes in eating habits. Government policies aimed at raising nutritional standards, especially among children, had been a further factor. Although current per capita consumption levels were still very low, they were steadily increasing.

53. A continuing decline in fresh milk consumption was apparent in the European Communities (-2 per cent in 1984) with an increasing share of the market going to low-fat and UHT milk. Growth in the low-fat and UHT market had levelled out in 1984 but appeared to have resumed in 1985. Promotion campaigns, especially those aimed at the young, had a modest effect in some

member States. In the Netherlands, for example, per capita liquid milk consumption rose 0.2 litre in 1985 to 86.3 litres. This was still only 85 per cent of the 1970 figure. Furthermore all the growth was in semi-skimmed milk (up 5 per cent); whole milk was down 3 per cent.

54. The pattern of decline continued in 1985 in some European countries such as Sweden (-2 per cent), Finland (-3 per cent) and Norway (-5 per cent). Switzerland recorded a steep fall in human consumption (-8 per cent) and an 11 per cent increase in liquid milk use for animal feed. This increase in on-farm use corresponded to the decline in deliveries to dairies.

55. In Australia per capita human consumption appeared fairly stable at around 103 litres annually. New Zealand showed a 3 per cent drop in human consumption in 1985 and a 15 per cent drop in milk use for animal feed. A further decline in human consumption seemed likely after the removal of the consumer subsidy on fresh liquid milk in 1985, which put its retail price up by 33 per cent.

56. In the United States whole milk consumption went down by 30 per cent from 1974 to 1984. For the first quarter of 1986, liquid milk sales were up 1 per cent on a year earlier, but as in Europe the growth was all in skimmed and low-fat milk. Whole milk sales were down 3.4 per cent on the first quarter of 1985. Human consumption in Canada dropped 6.5 per cent in 1985 and animal feeding use 3 per cent.

57. The principal area of growth in consumption was Asia, both developed and developing countries. Japan expected the trend of slowly increasing consumption to continue, though 1985 showed a 0.4 per cent drop in liquid milk consumption. The government was subsidizing a campaign to promote it and maintained a school milk subsidy. Thailand had also launched a government sponsored promotion campaign aimed specifically at adolescents. Consumption had risen steadily in recent years in India and China.

58. In Eastern Europe and the USSR government policies had involved substantial subsidies to keep consumer milk prices stable. In the USSR the current retail price of liquid milk in 1985 was little more than half of the total cost of production and marketing. Prices of milk (and major milk products) had remained virtually unchanged for 25 years. As a result demand had remained strong, sometimes ahead of supply. Hungary recorded a slight increase (+ 0.4 per cent) in human liquid milk consumption in 1985, though milk use in animal feed declined substantially.

Fresh Milk Products

59. The production of fresh milk products (e.g. yoghurt, flavoured milk, cream, etc.) continued to expand in 1985 and appeared to be maintaining its growth in 1986. In the developed countries of Europe and North America these products constituted the fastest-growing sector of demand for dairy products in recent years. The growth might have slackened in some older-established markets but the general trend remained positive.

60. In the European Communities, 1985 output of fresh milk products other than whole and skimmed milk reached the equivalent of 9 million tons of milk, an increase of 1-2 per cent on 1984. Around 6 million tons of this was cream and the rest yoghurt, flavoured milk etc. In the Federal Republic of Germany and France consumption of yoghurt and related products increased by 6.5 per cent in 1985. Yoghurt consumption had doubled in the past ten years. There were indications that the fashion for low-fat products would be superseded by a preference for the taste qualities of full-fat products. However in the Netherlands consumption of whole milk yoghurt dropped 6 per cent in 1985. Other types showed small increases.

61. In Norway the output of low-fat products such as buttermilk increased significantly in 1985, whereas full-fat ones declined and other product groups remained relatively stable. The situation was fairly static in Sweden and Finland. In Switzerland, while consumption of fresh products fell by 8 per cent in 1985, production of yoghurt increased by 3 per cent. Consumption and production both increased in Hungary, where low-fat products lost ground in relative terms. In Japan production and consumption of all types increased substantially in 1985. New Zealand output of fresh products (all types) increased by 12 per cent from 1984 to 1985.

62. United States consumption of yoghurt increased by 120 per cent from 1974 to 1984. Fresh products showed continued demand growth in 1985, especially the low-fat types. In Canada commercial sales of cream, flavoured milk and yoghurt were up in 1985/86 and were projected to increase further in 1986/87.

63. Total world trade in fresh milk products (including fresh milk) might have reached 250 thousand tons in terms of milk equivalent in 1985 with a value of around 75 million US dollars. For comparison, it might be mentioned that intra-Community trade in fresh milk and products amounted to more than 2.5 million tons or ten times world trade in 1984. Imports into Spain, mainly covered by supplies from the Community, had increased rapidly over recent years (1982: 18 thousand tons, 1983: 42 thousand tons and 1984: 90 thousand tons). With Spain having joined the Community on 1 January 1986, total world trade in fresh milk and products could diminish by roughly 100 thousand tons or 40 per cent from 1985 to 1986.

64. Both for Australia and New Zealand exports of fresh milk and products remained steady over recent years, around 10 to 12 thousand tons in both cases, but efforts were made to develop demand for a variety of fresh dairy products which could hopefully produce results in the near future. In New Zealand there was a sharp increase of more than 60 per cent from 1983 to 1984, in the production of fresh milk products, including ice-cream, yoghurt and cottage cheese. Efforts were made to develop demand for ultra heat treated (UHT) milk products. In 1984, New Zealand sales of flavoured milk expanded well in the Caribbean, Western Samoa and Guam. However, the exclusion of New Zealand products from the New Caledonian market more than outweighed the progress achieved elsewhere. New Zealand introduced a one litre pack of UHT cream which had been successfully marketed in the Caribbean, the Pacific, South East Asia and the Middle East. Efforts had been made to develop the flavoured milk sector, and a new product Fruyo - a combination of yoghurt and fruit juice - was introduced to the domestic market early in 1985 and plans had been made for export sales of the product. Other dairy exporting countries were also active in developing recombining industries in developing countries, notably the Middle East. The purpose was to create new markets for anhydrous milk fat and milk powder to be used for the manufacture of yoghurt, flavoured milk and other dairy products, and improving nutritional levels in developing countries.

Butter

Production

65. World production of butter and butter oil was estimated to be 7.6 million tons in 1985, which was about 1 per cent down from a year earlier. It appeared that butter output in the EC was reduced from 2,287 thousand tons in 1983 to 2,108 thousand tons in 1984 and 2,021 thousand tons in 1985. A further reduction of more than 3 per cent, from 2,021 thousand tons to 1,956 thousand tons, was anticipated in 1986. The combined output of butter and butter oil in 1985 was 6.4 per cent lower than the level a year before. In New Zealand, production of butter in 1985 at 263 thousand tons was only a shade lower than in 1984, though a slight increase was forecast for the current year despite the record milk production which was diverted into whole milk powder and cheese. Australian butter production dipped by nearly 8 per cent to a level of 80.4 thousand tons in 1985, mainly due to increased output of cheese and whole milk powder. A further decline was anticipated in 1986.

66. In Finland, butter production in 1985 edged 9 per cent lower than in 1984, and was expected to remain unchanged at 72,000 tons in 1986. Polish output of butter, which had picked up some momentum in 1984, declined by 5 per cent to a level of 275 thousand tons in 1985. A further decline was expected in the current year. In Sweden also, butter production fell by 12 per cent in 1985 compared to its level of 1984, and the indications were that the downtrend would continue in 1986. Trends in other participating countries varied somewhat. While in 1985 some gains were recorded in butter output by Argentina, Bulgaria, Japan, South Africa and Uruguay, losses were reported by Hungary, Norway, Romania and Switzerland. Aggregate production of butter at 3,059 thousand tons in 1985 in all the participating countries was 3.7 per cent lower than in 1984.

67. Production of butter in Canada, totalling some 94,500 tons in 1985, was 12 per cent smaller than its level in the preceding year. Forecasts revealed that production during 1986 would be around 94,000 tons. In the United States where production had declined by 16 per cent in 1984 to 500 thousand tons, it picked up by almost 14 per cent to a level of 569.6 thousand tons in 1985, as the result of a substantial increase in milk supplies. In view of the forecasts of still higher milk deliveries in 1986, butter output was likely to go up further. Production of butter in the USSR in 1985 was reportedly only a shade higher than its level in the previous year, but was expected to aggregate 2 per cent more in 1986 as a result of increased milk deliveries and higher yields. The Democratic Republic of Germany showed an increase from 309 thousand tons in 1984 to 315 thousand tons in 1985, but no further gain was expected during 1986.

68. As a result of larger milk output in several developing countries, especially in India and China, butter production was expected to increase in 1986 by a slight margin.

Consumption

69. Total consumption of butter in the countries for which statistical information was available registered a slight increase in 1985. It was expected that it would increase further in 1986 as a result of numerous measures adopted to promote its consumption in many countries.

70. In 1985, the EC continued its policy to encourage butter consumption with a view to reducing stocks. Special sales of cut-price butter within the Community such as sales to ice-cream and cake manufacturers and to non-profit-making institutions and bodies, were continued and the year 1984/85 also saw special sales of "Christmas butter" and a reduced price butter scheme for Berlin (a pilot scheme designed to help ascertain the effectiveness of specific cut-price sales). Moreover, a campaign financed by funds from the co-responsibility levy was designed to expand consumption of dairy products. Community assistance to the milk distribution programme in schools was expanded and covered all the member States. Efforts were being made in the EC, in particular through sales at reduced prices, to make butter fat competitive with vegetable fats. The preference given to the latter apparently was due to either great differences of price in relation to butter or to certain consumer preferences. The Christmas butter scheme was not repeated for 1985/86 as the measure proved to be expensive and not effective in terms of increased butter sales. Instead, the Commission took additional measures on the sale at reduced prices of concentrated butter; various Community measures containing provisions to this effect had been adopted since 1972. In July 1986 a scheme was adopted under which old butter would be incorporated in animal feeds, after processing into butter oil. It was expected that about 75,000 tons would be disposed of in this way in 1986. At the end of March 420,000 tons of the intervention stocks consisted of butter held more than 18 months, 459,000 tons that had been in stock for 6-18 months and 237,000 tons for less than 6 months. The EC sold under special programmes 283 thousand tons in 1985 and was planning a sale of 330 thousand tons in 1986, including sales of concentrated butter for cooking purposes at half the normal price. Total consumption of butter in 1985 was estimated at 1,622 thousand tons, as compared to 1,601 thousand tons in 1984 and 1,570 thousand tons in 1983. In 1986, domestic consumption was expected to rise further by 1 per cent to a total of 1,638 thousand tons.

71. In Switzerland, where a number of measures fairly similar to those of the EC had been taken to promote butter consumption in the domestic market, the product was being sold at prices considerably below cost, mainly with the help of subsidies. Advertising campaigns were launched to promote butter consumption. In addition, charges were applied on imports of edible oils and fats in order to narrow the gap between the price of butter and other fats. Domestic consumption of butter, which amounted to 44,500 tons in 1984, fell to 40,900 tons in 1985.

72. In Finland, where consumption of dairy products, particularly butter was high, the consumer price of butter was subsidized. This subsidy was granted on all butter produced in dairies or on farms. The price of margarine was increased by consumption tax in order to maintain a constant ratio between butter and margarine prices, but the ratio was being modified in favour of butter. Total consumption of butter declined from 59,000 tons in 1983 to 54,000 tons in 1984, but increased by 11 per cent in 1985 to reach a level of 60,000 tons.

73. In Poland, butter consumption continued to recover in 1984 and 1985. With the discontinuation of butter rationing, consumption was expected to increase further.

74. In South Africa, consumption of butter continued to decline in the face of increased competition from margarine. Steps had been taken to foster butter consumption with the help of advertising programmes, and a special campaign was conducted during which the retail price of butter was subsidized from the Dairy Board's Stabilization Fund.

75. Until recently, butter prices in New Zealand were much lower than those of margarine. Following an increase in the retail price of butter, however, the two products were being sold at the same price. In calendar year 1984, consumption of butter decreased by 3 per cent in relation to 1983. Consumption had been assisted by a promotional campaign undertaken by the New Zealand Dairy Board and by the introduction of two new butter products. Domestic consumption of butter in 1985 increased to 40,200 tons from 39,500 tons in 1984.

76. In Australia, aggregate consumption of butter amounted to 68.6 thousand tons in 1984, as compared to 61.1 thousand tons in 1983. In 1985, there was a slight decline so that the total was 66 thousand tons. The Australian Dairy Corporation was endeavouring to promote consumption of butter within the context of a decrease in overall fat consumption in Australia.

77. In Austria, sales drives involving reduced butter prices were undertaken for social and economic reasons. Likewise, the army and hospitals could obtain butter at reduced prices throughout the year. Advertising campaigns to promote consumption, whether of butter or margarine, led to some increase in consumption during 1985. In the United States, total consumption of butter increased in 1982 and 1983 after several years of decline. The reasons for that earlier decline included competition between butter and margarine and competition between the various types of margarine depending on fat content. In order to bring down surplus stocks, a number of butter distribution programmes were launched. Total domestic consumption in 1985 was estimated to be 567 thousand tons as compared to 551 thousand tons in 1984. In Canada, consumption of butter, which increased in 1983 by 7 per cent, plummeted again in 1984 by nearly 8 per cent to below the 1982 level. An advertising campaign for butter was launched in 1984, but simultaneously a publicity campaign was launched by margarine producers in favour of their product. Aggregate consumption of butter at the end of 1985 amounted to 101.7 thousand tons, i.e., 1.5 per cent less than in 1984.

Trade

78. In 1984 the market situation had been characterized by a high level of stocks, weak demand and strong competition, resulting in depressed prices. In 1985 the market situation improved somewhat as a result of a slight increase in butter sales from certain major exporters. On a global basis, exports appeared to have increased by around 5 per cent during 1985. The participating countries, as a group, accounting for about four fifths of

the world trade, recorded an increase of 6 per cent in their butter exports during 1985. While butter exports of the EC, Finland, Hungary, Poland, Sweden and Switzerland had diminished in 1985, those from Australia, New Zealand, Norway and Uruguay had increased. The prospect for 1986 was that there might be a slight recovery in world butter trade, but intense competition among major suppliers was expected to keep butter and butter oil prices down in the near future.

79. EC exports of butter to third countries during 1985 dwindled to 200 thousand tons from 220 thousand tons in the preceding year. The main destinations of exports were still the Mediterranean countries, the USSR and the OPEC countries. In the first quarter of 1986, the EC sales totalled some 21,000 tons, and the indications were that the downtrend would continue during the rest of the year. In July 1984 the Commission of the European Communities announced a series of measures to facilitate the disposal of certain dairy products, particularly butter. Regulations were adopted concerning the special sale of intervention butter for export to certain destinations, and the sale at low prices of butter intended for export in the form of ghee. Under Regulation No. 2268/84 the EC had sold 151 thousand tons of butter, including 130.5 thousand tons to the USSR. Sales under Regulation No. 2278/84 had totalled some 3,100 tons. Under Title II of Regulation No. 2956/84, 120 thousand tons of butter had been sold to the USSR, with deliveries completed by 30 June 1985. A total of 274 thousand tons sold under those Regulations comprised 250 thousand tons purchased by the USSR and 24 thousand tons by other countries. Regulation No. 2268/84 was concerned with the sale of intervention butter not less than six months old for export, particularly to the Middle East, Iran and the USSR; this Regulation was later suspended. Regulation No. 2278/84 under which sales of butter in the form of ghee were permissible only if it was seventeen months old, was also revoked; Title II of Regulation No. 2956/84 had already been revoked in December 1984. However, on 14 March 1986 the EC adopted another Regulation No. 765/86 laying down detailed rules for the sale of butter from intervention stocks for export to certain destinations in accordance with the Decision of the Committee on the Protocol Regarding Milk Fat on 31 May 1985 (DPC/F/35). Later, a notification was received from the EC in which it was disclosed that the EC had accepted a tender for the sale of butter from public stocks, not less than 18 months old, in an amount of 100,000 tons at an f.o.b. price of US\$450/per ton to the USSR. Another 50,000 tons of butter was expected to be sold to the USSR as a part of the same deal sometime later.

80. Exports by New Zealand in 1985 at 215 thousand tons, as compared to 153 thousand tons in 1984, were 40 per cent higher. During the first quarter of 1986, exports had totalled about 44 thousand tons, one quarter less than in the same period of last year; but it was expected that the total for 1986 would be around 250 thousand tons, i.e. 16 per cent more than in 1985. The United Kingdom remained the main outlet. Under the preferential regime for butter imports, the United Kingdom had been authorized to import from New Zealand 81,000 tons in 1985 and 79,000 tons in 1986. Due to problems of over supply of dairy products, pressures within the EC for New Zealand to share the burden of supply adjustment by reducing its exports of butter led to a reduction in import quotas for 1987 and 1988 which respectively would be 76,500 tons and 74,500 tons. New

Zealand also sold 23,500 tons to Algeria and 26,200 tons to the USSR. Australian exports of butter which had increased strongly in 1984 reaching 22,200 tons continued their uptrend so that their level was 27,400 tons by the end of 1985. In the first quarter of 1986, exports had already reached a total of 13,361 tons. The main destinations were Algeria, Iran and a number of Pacific countries.

81. The downtrend in Finland's butter exports continued in 1985 so that the level was only 19,000 tons as compared to 23,000 tons in 1984, i.e., one fifth less. The main outlets remained the USSR and some African countries. Exports from other participants showed divergent trends.

82. Exports of butter from the United States, which had reached a level of 44,200 tons in 1984, totalled only 30,000 tons in 1985. In the first quarter of 1986, exports amounted to 2,100 tons as compared to 2,800 tons in the corresponding period of the previous year. The main destinations being Mexico, Egypt and Jamaica. Under the US Food Security Act of 1985, a five-year farm-subsidy programme, allowed export sales of 100,000 tons of surplus butter in each of the three fiscal years 1986 through 1988, provided that the butter was available and that it would not disrupt domestic or world markets. At the end of July 1986, only 3,000 tons of butter oil had been exported under the programme. Exports from the Democratic Republic of Germany declined in 1985, as they also did in the case of Romania.

83. On the import side, exports of butter to the EC by third countries, which had declined by 9 per cent to a level of 96,000 tons in 1984, receded further in 1985 to aggregate 63,000 tons. New Zealand remained the main source of Community imports. In the first quarter of 1986, butter imports totalled 13,000 tons which was about 8 per cent more than the level in the same quarter of the preceding year. Imports into Switzerland, which were reduced by one third to a level of 8,000 tons in 1984, diminished further by 12 per cent to total 7,100 tons in 1985. In the first quarter of 1986, butter imports at 2,200 tons were at least 9 per cent more than in the corresponding period of last year. Further recovery was expected in the course of the year. Imports by the USSR decreased to a level of 198,000 tons or by 2 per cent in 1984, but were reported to have increased to 200,000 tons in 1985, the bulk of which came from the EC countries. The forecasts for 1986 suggested some increase in world butter trade. However, the growing competition for export sales by the EC, New Zealand and the United States would continue to keep butter and butter oil prices low in the foreseeable future.

Stocks

84. Total stocks of butter in the EC, North America and Oceania on 1 October 1985 at 1.5 million tons were about 9 per cent smaller than a year earlier. There was a further reduction of around 5 per cent by the end of 1985 when combined stocks stood at 1.39 million tons. On 1 April 1986, stocks soared again, mainly due to increases in the United States and New Zealand, to a level of 1.42 million tons. Stocks of butter in the EC had increased to 1.12 million tons by the end of 1985 from 0.94 million tons at the end of 1984. Aggregate stocks stood at 1.34 million tons on 11 July 1986 (excluding 107.420 tons of stocks with

private agencies). In order to reduce the level of stocks, the Commission had adopted two decisions. The first was to delay payment for butter sold into intervention stocks for 180 days instead of 60 days. The second was to make the seller responsible for the costs of the first 60 days of storage. It was considered that these two changes would have the effect of reducing the intervention price by about 2 per cent. Despite special Christmas sales and large export contracts with the USSR and other measures to reduce production and to increase exports, the high level of stocks remained a source of serious concern to the Community. New Zealand stocks, which had increased from 62 thousand tons on 1 October 1984 to 91.6 thousand tons on 1 October 1985, increased further to 116 thousand tons on 1 January 1985 and 130 thousand tons on 1 April 1986. Australian butter stocks at 22.7 thousand tons on 1 October 1985 were 29.5 per cent less than a year earlier, but they increased to 38.1 thousand tons by the end of 1985. On 1 April 1986 they dropped again to a level of 32.6 thousand tons.

85. In the United States, measures had been taken to curb production and to increase exports in the form of food aid. This led to a sharp reduction in stocks, which on 1 October 1985 stood at 112 thousand tons, a decrease by some 42 per cent compared with their level on 1 October 1984. They decreased further to a level of 93.1 thousand tons in the fourth quarter of 1985. In April 1986, however, stocks soared to a level of 113.4 thousand tons, as increased milk production led to an increase in butter production. One of the basic purposes of the United States Food Security Act of 1985 was to boost United States exports of dairy products and to reduce stocks. Stocks of butter on 1 July 1986 came down to 102.1 thousand tons, but this reduction was not necessarily linked with any increase in butter exports. Stocks were expected to increase during 1986 as a result of a substantial increase in milk production. Canadian stocks on 1 October 1985 at 27.5 thousand tons were almost one quarter less than a year earlier. They declined further to 20.3 thousand tons by the year end. Stocks at the end of the first quarter of 1986 rose to 21.1 thousand tons. However, stocks were expected to be reduced to 13.8 thousand tons by the end of 1986 as production would remain unchanged and domestic consumption would increase.

International prices

86. On 31 May 1985, the Committee of the Protocol Regarding Milk Fat decided to reduce with effect from 5 June 1985 the minimum export price for butter from US\$1,200 to US\$1,000 per ton. Simultaneously, an agreement was reached with regard to sales of old butter by derogation from the provisions of paragraphs 1 to 4 of Article 3, and pursuant to Article 7:1 of the Protocol Regarding Milk Fat. The Council subsequently decided to rescind the Resolution of 16 November 1984 and agreed that no further sales could take place under said Resolution. Sales of about 200 thousand tons of butter were reported to have been made at prices below the minimum of US\$1,200 per metric ton f.o.b. All deliveries of butter sold under the Resolution were completed by 30 June 1986.

87. Stability in the international prices of butter and anhydrous milk fat had been steadily eroded due to a weakening of demand for these two products and an appreciation in the value of the United States dollar. International market prices of butter were between US\$1,620-US\$1,700 per ton by the end of 1983. Prices continued to deteriorate so that in the third quarter of 1984 they hovered around US\$1,200-US\$1,450 per ton. In the second quarter of 1985, international market prices were in the range of US\$850-US\$1,450 per metric ton f.o.b. It should be noted that prices at the lower end of the bracket were already below the minimum price set under the Protocol and were thus a source of serious concern to the participants. The decision of the Committee to revise the minimum prices downwards was expected to contribute to some stability in the international butter market. However, butter stocks remained high and continued to cause pressure on the market. In the third quarter of 1985, prices ranged between US\$1,000 and US\$1,150 per ton f.o.b. In the fourth quarter of 1985, prices remained at fairly low levels, between US\$1,000 and US\$1,200 per ton f.o.b. Certain offers reportedly had been made at less than the minimum price. In the first six months of 1986, average export prices for butter were US\$1,000 or slightly above per ton f.o.b. The price situation and the level of stocks, therefore, remained sources of serious concern to participants.

Anhydrous Milk Fat

Production

88. The combined output of anhydrous milk fat by the six major producers (Australia, EC, New Zealand, Sweden, Switzerland and Uruguay) at 271.4 thousand tons in 1985 was only marginally lower from the level of 272.4 thousand tons in 1984. Output in the EC rose from 207 thousand tons in 1984 to 212 thousand tons in 1985. In Australia and New Zealand, however, production in 1985 was respectively 9 per cent and 27 per cent lower in comparison with the levels in 1984.

Trade

89. Traditionally, the major exporters of anhydrous milk fat were the EC and New Zealand. While the EC exports aggregated 150 thousand tons in 1985, i.e. 16 per cent more than in 1984 those from New Zealand showed a decline of almost 13 per cent from 40.6 thousand tons in 1984 to 36 thousand tons in 1985. Australian exports of anhydrous milk fat more than doubled, i.e. from 10.8 thousand tons to 24 thousand tons in 1985.

Food aid

90. Under the 1984 food-aid programme, the EC provided 49 thousand tons of butter and butter oil to certain developing countries and multilateral agencies as food aid in 1984, as against 17 thousand tons in 1983 (Table 4). The aid component thus increased from 15 per cent of the total exports of this product in 1983 to 38 per cent in 1984. Under EC Regulation No. 457/85 the aid programme for 1985 provided a maximum of 28.7 thousand tons of butter oil. In 1985, deliveries of butter oil as food aid amounted to 29 thousand tons as against 49 thousand tons delivered in the corresponding period of 1984. The 1986 food-aid programme of the Community provided for a maximum of 27.3 thousand tons of butter oil.

91. Foreign donations by the United States under Section 416 during 1985 totalled some 31 thousand tons of butter oil in terms of butter equivalent.

Stocks

92. In New Zealand, stocks of anhydrous milk fat, reached a level of 10 thousand tons on 1 April 1986 compared to 7 thousand tons a year earlier. The Australian stocks during this period decreased from 3,200 tons to 2,200 tons.

International prices

93. On 31 May 1985, the Committee of the Protocol Regarding Milk Fat decided to reduce the minimum price of anhydrous milk fat from US\$1,440 to US\$1,200 per metric ton f.o.b. as from 5 June 1985. International prices of anhydrous milk fat had been weakening since 1983. Prices in the first six months of 1985 were between US\$1,290 and US\$1,650. During the second half of 1985, prices ranged between US\$1,200 and US\$1,360 per ton f.o.b. It should be noted that in the second half of 1985, prices at the lower end of the bracket were at the minimum price set under the Protocol. In the first quarter of 1986, average export price remained at US\$1,200 or slightly above per ton f.o.b. In the second quarter, prices continued to be weak and remained close to the GATT minimum.

Cheese

Production

94. World output of cheese at 12.8 million tons in 1985 was 3 per cent more than in 1984. Another 2 per cent gain was forecast for 1986. In the EC, cheese production at 4.26 million tons in 1985 was about 2 per cent higher than in 1984 despite the reduced milk supplies. In the first quarter of 1986, production at 994,000 tons was slightly below the level of 999,000 tons in the same quarter of last year; however, it was expected to rise again. Output for 1986 was projected to increase by 1.6 per cent to a level of 4.33 million tons, as a result of the continued EC policy to expand cheese production.

95. In Australia, cheese production in 1985 at 163.6 thousand tons was 3 per cent more than in 1984. Output in the first quarter of 1986 at 42.35 thousand tons was 15.7 per cent higher than the level in the same quarter of 1985. Growth slowed down in the second and third quarters, so that the increase in 1986 was expected to be only 6 per cent. Much of the increase had occurred in the output of non-Cheddar type cheeses. The New Zealand production of cheese in 1985 was marginally below the level of 121 thousand tons in 1984. However, a sharp increase in production was forecast for 1986.

96. Relative gains were recorded in cheese production during 1985 by Argentina (+3.7 per cent); Finland (+3.9 per cent); Norway (+1.4 per cent); and Romania (+3.3 per cent). However, production declined in Bulgaria (-2.4 per cent); Poland (-1.0 per cent); South Africa (-6.9 per

cent); Sweden (-1.0 per cent); Switzerland (-2.6 per cent) and Uruguay (-1.0 per cent). Production remained unchanged in Hungary. Japanese production of processed cheese manufactured from imports of natural cheese declined in 1985, but was increasing in 1986.

97. Lower milk supplies in Austria also led to reduced cheese manufacture in 1985, and the forecast for 1986 was about 4 per cent decline over the last year. Cheese output in the United States in 1985 aggregated 2.29 million tons, which was about 8 per cent more than in 1984. It was forecast to increase by another 5 per cent to a level of 2.40 million tons in 1986, mainly as a result of a sharp increase in milk supplies. Canadian cheese manufacture totalling 207.3 thousand tons in 1985 was 7.5 per cent higher than in 1984. The manifested buoyancy was, however, expected to level off in the course of 1986. In the USSR, cheese output at around 800 thousand tons in 1985 was about 2 per cent higher than in the previous year. It was projected to increase further as a result of increased milk production in 1986.

Consumption

98. Figures for 1985 show that world consumption of cheese was about 3 per cent higher than in 1984. With the exception of a few countries, the demand for different varieties of cheese increased at a steady rate, and the outlook for 1986 was a further improvement in world consumption of cheese.

99. Cheese consumption in the EC, which had increased by nearly 6 per cent in 1984 compared to its level in 1983, increased only by 2 per cent to a level of 3.88 million tons in 1985. In the first quarter of 1986, consumption receded to a total of 935 thousand tons, as compared to 945 thousand tons in the corresponding period of 1985. However, consumption for the entire 1986 was expected to increase by about 1 per cent, mainly due to an increase in per capita consumption in the Federal Republic of Germany. Consumption was reported to have increased in Bulgaria (+5.7 per cent); Finland (+12.0 per cent); New Zealand (+5.1 per cent); Norway (+4.6 per cent); Sweden (+0.9 per cent); Switzerland (+1.8 per cent) and Uruguay (+3.6 per cent). However, it remained stable at last year's level in Japan and South Africa, and declined in Australia (-11.4 per cent); Hungary (-4.6 per cent) and Poland (-1.0 per cent).

100. Consumption in Austria remained static at 343 thousand tons in 1985, but in Canada was up by 4.7 per cent to a level of 216.7 thousand tons. United States consumption of cheese in 1984 was 2.34 million tons, but it increased by 4.6 per cent to reach an aggregate level of 2.45 million tons in 1985. Consumption also expanded in the USSR from 791 thousand tons in 1984 to 796 thousand tons in 1985. A further increase was anticipated for 1986. In the Democratic Republic of Germany, it steadily increased and in 1985 was almost 2 per cent higher than in the previous year. Elsewhere, either small declines were recorded or consumption remained unchanged.

Trade

101. World trade in cheese, excluding the EC intra-trade which had shown a sustained rise over the past several years, declined in 1985 by about 7 per cent due mainly to a substantial reduction in the EC shipments. The EC exports during 1985 totalling 408 thousand tons were about 12 per cent

lower than in 1984, due mainly to a significant drop in deliveries of Feta cheese to Iran, i.e., from 121 thousand tons to 77 thousand tons. Exports in the first quarter of 1986 totalled some 86 thousand tons, which, compared with a total of 99 thousand tons in the same period of the previous year, were 12 per cent lower. In order to help its exporters compete with other major suppliers, the EC in its Regulation No. 1831/86 introduced a special export restitution programme on 13 June 1986. Under this programme special restitutions would be allowed for additional specific destinations (particularly Japan for certain cheeses) and restitutions for certain cheeses exported to Australia would be revised. In general, the changes reflected movements in exchange rates during the previous year, but in the case of Australia, no changes had been made since November 1983. As a result the adjustment had been quite large, though for one category no change had been made. Under Regulation No. 2185/86, Canada was removed from the list of countries eligible for restitutions on exports of certain cheeses and reductions had been made in restitutions allowed for some others. As a result of these measures, it was expected that the EC cheese exports in 1986 would show some recovery.

102. Deliveries by New Zealand in 1985 were a shade higher than the aggregate level in 1984. The main destinations were Japan, the USSR, North Africa and the Middle East. However, exports in the first quarter of 1986 were one third more than in the corresponding quarter of 1985 and the upsurge was expected to continue in the rest of the current year. Under Article 7:2 of the Protocol, New Zealand sold a total of 2,664 tons in 1985 to different countries including Portugal, Sweden, Hungary, Romania, Denmark and Yugoslavia at prices below the minimum GATT price. It was expected that New Zealand would continue to invoke Article 7:2 for more exports of low quality cheese during 1986 at below the minimum price. Australian exports in 1985 at 73.6 thousand tons, compared to 56.9 thousand tons in 1984, were 29 per cent higher, though some slackening was noticeable in the first quarter of 1986 when they totalled 12.9 thousand tons only, which was 28 per cent lower than their level in the same quarter of 1985. Thus, exports in 1986 were not expected to exceed a total of 66,300 tons against an estimated export availability of 71,000 tons. Australia also invoked Article 7:2 of the Protocol to export 430 tons of low quality cheese to certain European destinations in 1985, at prices below the minimum export price.

103. Exports from Switzerland at 65.4 thousand tons in 1985 were almost 4 per cent higher than in 1984, but the level in the first quarter of 1986 compared unfavourably with that of the corresponding quarter of last year. Finland's exports of cheese totalled 37 thousand tons in 1985, 3 per cent lower than the level in the previous year; but those from Norway were almost 12 per cent higher. According to indications available for other participating countries, exports of cheese during 1985 were higher from Argentina (+14.0 per cent) and Hungary (+14.9 per cent); and were lower from Bulgaria (-12.2 per cent); Sweden (-10.4 per cent) and Uruguay (-37.0 per cent). Exports from Poland at 1,100 tons remained unchanged.

104. United States' cheese exports decreased to a level of 15.7 thousand tons in 1984. In the first quarter of 1986, exports totalled only 2,000 tons which was only 67 per cent of the level in the corresponding

period of 1984. Canadian cheese exports nearly doubled from 5,300 tons in 1984 to 10,500 tons in 1985. The trend in 1986 showed a significant surge in exports, especially to Japan. Exports from Austria in 1985 dipped by 9 per cent to a level of 42.5 thousand tons and the downtrend continued in the earlier part of 1986.

105. During the fiscal year 1985, cheese donations by the United States under Section 416 aggregated 22,186 tons mainly to Poland (58 per cent); Chile (20 per cent); Mexico (17 per cent); Mozambique, Portugal, Haiti and Tanzania (5 per cent). Another 2,000 tons was shipped under P.L. 480 programme (title II). Certain quantities of cheese were also donated as food aid by Finland and Switzerland.

Stocks

106. At the global level, cheese stocks at the close of 1985 were a shade lower than their level at the end of 1984. Cheese stocks in the EC which were normally not subject to wide variations due to a strong domestic demand, nonetheless increased in 1985 as a result of less than anticipated growth in demand and a fall in EC's exports resulting from a severe price competition on the world market. Private stocks on 12 December 1985 were estimated to be 111 thousand tons, of which 92 thousand tons were of Italian-type cheeses. Stocks dwindled a little bit in the early part of 1986 to a level of 91 thousand tons on 1 April, with the bulk still consisting of Grana Padana and Parmigiano Reggiano (Italian) cheeses. In Australia, the expansion in cheese production and a fall in domestic consumption were reflected in expanded stock levels. On 1 April 1986, they had increased to 100.5 thousand tons from their level of 95.1 thousand tons a year earlier. New Zealand stocks on 1 April 1986 at 81.4 thousand tons were 13 per cent higher than their level a year earlier. Cheese stocks in the United States on 1 July 1986 amounted to 431 thousand tons, about 9 per cent less than their level at the same time last year. Cheese stocks elsewhere showed divergent trends. While they were higher in Canada, Norway and Sweden, they were comparatively lower in Argentina, Bulgaria, Finland, Japan, Hungary, Poland, Romania, South Africa and Switzerland.

International prices

107. Since 1 October 1981, the minimum price for cheeses covered by the Protocol had been US\$1,000 per metric ton f.o.b. Market prices, however, varied according to types of cheeses and the final destinations. International prices of Cheddar cheese, which had been in the range of US\$1,200 and US\$1,500 per ton, f.o.b. at the end of 1983, fluctuated between US\$1,200 and US\$1,350 per ton f.o.b. towards the end of the first quarter of 1984. They were more or less stabilized in the second quarter within a range of US\$1,150-US\$1,300 per ton f.o.b., but declined in the first quarter of 1985, mainly due to an appreciation in the value of the United States dollar and prices ranged between US\$1,100-US\$1,430 per ton f.o.b. During the third quarter of 1985, prices fluctuated between US\$1,050 and US\$1,270 per ton f.o.b. In the fourth quarter prices ranged between US\$1,000 and US\$1,300 per ton f.o.b., and competition continued to be keen on certain markets. In 1986 prices on the international market appeared to have strengthened somewhat. While their range in the first quarter of 1986 was US\$1,100-1,390, prices were between US\$1,100 and US\$1,500 in the second quarter of 1986.

Skimmed Milk Powder

Production

108. Total world production of skimmed milk powder in 1985 (4.2 million tons) was 2 per cent lower than in 1984, when it had decreased by 7 per cent. In the EC, production fell by about 8 per cent in 1985 to a level of 1.77 million tons. However, it increased by 23.5 per cent in the first quarter of 1986 in relation to the first quarter of 1985. The decline in 1984 and 1985 was due mainly to the introduction of the milk quota system. In New Zealand, production in 1985 amounted to 197 thousand tons, a decrease of 12.7 per cent in relation to 1984. Production continued to decrease in the first quarter of 1986. In Australia, production in 1985 decreased by 2.2 per cent to 134 thousand tons; this decrease continued in the first quarter of 1986 at a faster rate. Since July 1985, skimmed milk powder production had continued to decline, due to a fall in butter production and an increase in the production of cheese, whole milk powder and casein. Production of skimmed milk powder was estimated at 125 thousand tons in 1985/86, a 11.4 per cent decrease compared with 1984/85 output. Production of skimmed milk powder by other participants followed varying trends in 1985; output increased in Poland and Japan, and declined in Finland, Hungary, Sweden and Switzerland.

109. In the United States, output increased by 21.2 per cent in 1985, reaching 638 thousand tons. This increase continued in the first half of 1986 at almost the same rate, and production rose to 379 thousand tons compared to 315 thousand tons in the first six months of 1985. In Canada, production in 1985 totalled 98 thousand tons, a decrease of 24.8 per cent in relation to 1984; output during the first quarter of 1986 at 22 thousand tons was more or less the same as in the first quarter of 1985. Production in the USSR continued to increase in 1985 and reached 480 thousand tons as compared to 440 thousand tons in 1984.

110. World production of skimmed milk powder was expected to increase in 1986 as a result of expanded production in the United States and the USSR. In the United States, production might amount to 750 thousand tons in 1986, an increase by 17 per cent in relation to 1985. In the USSR, production could reach some 520 thousand tons in 1986. In the EC, production was expected to amount to 1,826 thousand tons in 1986. In New Zealand, output in 1986 was expected to be more or less the same as in 1985. In Australia, production might decline in 1986. In Canada, production in 1986 was expected to aggregate 102 thousand tons, an increase by 4.4 per cent in relation to 1985.

Consumption

111. World consumption of skimmed milk powder decreased in 1985. In the EC total internal consumption had declined to the level of 1,563 thousand tons in 1985, a decrease by 21.2 per cent in relation to 1984. Human consumption was estimated to have risen to 172 thousand tons, i.e. 55 thousand tons more than in 1984. Consumption for animal feed - the major outlet for skimmed milk powder in the Community - decreased by about 483 thousand tons in 1985, reaching 1.38 million tons. During the first

quarter of 1986, total domestic consumption was 333 thousand tons, as against 525 thousand tons in the first quarter of 1985. In the United States, total consumption of skimmed milk powder increased by some 42 thousand tons in 1985, to a level of 346 thousand tons. In Japan, domestic consumption totalled 255 thousand tons in 1985, i.e. 1,000 tons less than in 1984; 179 thousand tons was used for human consumption. In Finland and Hungary most of the skimmed milk powder consumed in 1985 was used for animal feed.

112. In Western Europe, where skimmed milk powder was used mainly for animal feed, measures were applied to promote its consumption. EC direct aid for the use of skimmed milk powder in feeding calves was at the rate of ECU 80 per 100 kgs., or 46 per cent of the intervention price of this product. In addition, subsidies were granted on liquid skimmed milk, either to promote its use in the animal feed sector or for processing into casein. Furthermore, special measures could be taken in the "pig-and-poultry" compound feed sector if the stock situation so required. Thus, 600 thousand tons were sold at greatly reduced prices in 1984 for pig and poultry feed. The "pig-and-poultry" scheme was discontinued in April 1985 because the stocks had come down to their lowest level of about 350 thousand tons. Due to the subsequent rise in the stocks the EC reintroduced this scheme in August 1986. In July 1984 the Council decided to extend the aid régime in respect of skimmed milk powder for calves to include partly skimmed milk powder (9 to 11 per cent fat), which would provide an additional outlet. Other countries too, in particular Austria, Finland and Switzerland launched promotion drives for the use of skimmed milk powder or liquid skimmed milk as animal feed. A number of programmes had been set up to increase use of dairy products in the United States. National donations of skimmed milk powder reached a level of 54 thousand tons in 1985, as against 53 thousand tons in 1984.

Trade

113. World exports of skimmed milk powder (including food aid) increased in 1985, due mainly to the pronounced rise in foreign donations by the United States. Total exports by the EC (including food aid), after having decreased for three consecutive years in 1981, 1982, and 1983, increased in 1984 by some 62 per cent, reaching 307 thousand tons of which 167 thousand tons was delivered as food aid. In 1985 total exports increased by 0.7 per cent, totalling 309 thousand tons of which 124 thousand tons was delivered as food aid. According to the provisional data, exports appear to have sharply declined during the first quarter of 1986, reaching 35 thousand tons, as against 87 thousand tons in the corresponding quarter of 1985. Exports by New Zealand rose by 3.5 per cent in 1985 to reach 173 thousand tons; during the first quarter of 1986 exports reached 24.5 thousand tons as against 50.6 thousand tons in the corresponding quarter of 1985. As in 1984, the main destinations of New Zealand exports in 1985 were countries in South East and Eastern Asia. Exports from Australia increased by 28.9 per cent in 1985 to the level of 90 thousand tons; they declined during the first quarter of 1986 to 24.2 thousand tons as against 28.5 thousand tons in the corresponding quarter of 1985.

114. Exports from Poland, increased by 1.5 per cent in 1985, reaching 41.4 thousand tons; the main destinations were Japan, Bangladesh and Algeria. In April and May 1985, Poland sold to Japan, in accordance with Article 3, paragraph 5 of the Protocol, 3,232 tons of skimmed milk powder for animal feed at prices between US\$590 and US\$595 per metric ton franco Polish border. In March and April 1985 Switzerland had sold to Spain, in accordance with Article 3, paragraph 5 of the Protocol, some 900 tons of skimmed milk powder for animal feed purposes at prices ranging between US\$537 and US\$550 per ton f.o.b.

115. Exports by the United States rose by 15.3 per cent in 1985 to reach 305 thousand tons; approximately 73 per cent of the shipments - about 222 thousand tons - were made as food aid. The principal destinations for these exports were countries in Africa, South and Central America. Exports continued to increase in the first quarter of 1986, reaching 83.7 thousand tons, about half of which (45 thousand tons) was shipped as food aid. In the second quarter of 1985, the United States sold to Spain some 25 thousand tons of skimmed milk powder for animal feed purposes, at a total value of US\$7.5 million. Government to government sales of non fat dairy milk in relation to the Food Security Act of 1985, up to the end of July 1986 amounted to 107.6 thousand tons, of which 51 thousand tons to Brazil at prices between US\$665 and US\$690 per ton f.a.s. and 41 thousand tons to Mexico at prices between US\$730 and US\$800 per ton f.o.b. Furthermore, 15 thousand tons of feed powder was sold to Austria at a price of US\$350 per ton and 600 tons to Israel at a price of US\$450 per ton. Total exports by the United States could reach 400 thousand tons in 1986 as against 305 thousand tons in 1985. Exports from Canada continued to decrease in 1985 (by about 13.5 per cent after a decrease of 14.5 per cent in 1984) falling to 60.6 thousand tons. Exports continued to decline during the first quarter of 1986 showing a drop of 41.5 per cent over the corresponding period of 1985. The principal destinations of Canadian exports in 1985 were countries in South and Central America.

116. On the import side, purchases by Japan increased by 15.5 per cent in 1985 to 104 thousand tons. Much of the powder imported - 76.4 thousand tons - was for use as animal feed. At the beginning of 1986, however, imports declined and showed a fall of 24 per cent in the first quarter. The principal origins of supplies in 1985 were New Zealand (47 thousand tons) and Australia (29 thousand tons). Spain increased its imports substantially in 1985. Imports into Mexico continued to increase, reaching some 145 thousand tons of skimmed milk powder in 1985, as against 100 thousand tons in 1984, the principal supplier being the United States. Imports into Brazil increased in 1985 by 33 per cent to the level of 40 thousand tons, the principal origin being the United States.

117. Total world exports of skimmed milk powder were expected to decline in 1986, notably as the increase in United States exports would be outweighed by lower supplies from the Community, Oceania and Canada.

Food aid

118. Food-aid deliveries of dairy products consisted mainly of skimmed milk powder and anhydrous milk fat (Table 4). Food-aid deliveries from the EC of these two products decreased in 1985 while foreign donations by the United States increased in that year. As regards skimmed milk powder, foreign donations by the United States amounted to 222 thousand tons in 1985 as against 180 thousand tons in 1984, the main destinations being

Egypt, Brazil, Chile and Ethiopia. During the first three months of 1986, foreign donations amounted to about 45 thousand tons, out of total exports of 83.7 thousand tons. These figures do not include skimmed milk powder exported as a component of a mixture of corn, soya and skimmed milk powder. Foreign donations were up sharply in 1985 and were expected to continue at high levels in 1986. The EC food-aid programme for the year 1985 provided for a maximum of 108.6 thousand tons of skimmed milk powder, as against 122.5 thousand tons in 1984. Food-aid deliveries by the EC amounted to 124 thousand tons in 1985, as against 167 thousand tons in 1984. The main beneficiaries under the 1985 programme were India with 15 thousand tons and the World Food Programme (26 thousand tons). The 1986 food-aid programme of the Community provided for a maximum of 94 thousand tons of skimmed milk powder. The Community had drawn up a list of countries and organizations eligible for food-aid operations but a break-down of the above-mentioned quantity of skimmed milk powder by recipient countries and international organizations was not available. According to available data, food aid deliveries of milk powder had also been made by Australia, Austria, Canada, Finland, Japan and Switzerland. China, which had not traditionally been a large milk producer and consumer, was now attaching greater importance to dairy development and might be seeking food aid in the form of skimmed milk powder and anhydrous milk fat as a major element in its dairy development programme.

Stocks

119. Total stocks of skimmed milk powder in the EC, North America and Oceania of approximately 1.15 million tons at 1 January 1986 were down by 12.2 per cent from one year earlier. Total stocks of skimmed milk powder held by other countries showed divergent trends between 1 January 1985 and 1 January 1986. At the end of 1985, the level of world stocks of skimmed milk powder was lower than at the end of 1984. The reduction of stocks recorded at the end of 1985 was primarily accounted for by reduction in public stocks in the EC and the United States.

120. Total stocks of skimmed milk powder in the EC, North America and Oceania of approximately 1.24 million tons at 1 April 1986 were up by 18 per cent from one year earlier. Public stocks in the EC totalled 646 thousand tons on 1 April 1986, as compared to 405 thousand tons on 1 April 1985. Subsequently, they increased and towards the end of July 1986, were at a level of around 990 thousand tons. Thus, as indicated in the section regarding consumption, the EC reintroduced special disposal measures in the "pig-and-poultry" compound feed sector in order to reduce stocks. On 1 April 1986, United States stocks amounted to 444 thousand tons, down by 12 per cent in relation to one year earlier. Stocks at the end of 1986 were expected to be slightly below their level one year earlier, totalling 455 thousand tons. On 1 April 1986, stocks of skimmed milk powder in Australia and Canada were below their levels one year earlier while stocks held by New Zealand were above their level on 1 April 1985.

TABLE 4
Share of Food Aid in Total Exports

Participating countries	Total exports			Food aid			Food aid/ total exports		
	1983	1984	1985	1983	1984	1985	1983	1984	1985
	Metric tons						Per cent		
	<u>Skimmed milk powder</u>								
Australia	56,300	70,200	90,200	3,000	4,200	800	5.3	6.0	0.9
Austria	16,300	15,736	...	407	718	...	2.5	4.6	...
Canada	81,860	70,000	60,580	14,000 ^a	28,000 ^a	...	17.1	40.0	...
EC	192,000	307,000	309,000	73,000	167,000	124,000	38.0	54.4	40.1
Switzerland	400	700	8,800	400	700	1,200	100.0	100.0	13.6
United States	234,167	264,517	304,883	113,211	180,533	221,928	48.3	68.3	72.8
TOTAL	581,027	733,153	...	204,018	381,151	...	35.1	52.3	...
	<u>Whole milk powder</u>								
Australia	33,500	27,300	31,700	800	600	40	2.4	2.2	0.1
Austria	14,281	26,441	...	556	-	...	3.9	-	...
Switzerland	3,100	3,100	3,000	2,700	2,700	2,600	87.1	87.1	86.7
TOTAL	50,881	56,841	...	4,056	3,300	...	8.0	5.8	...
	<u>Anhydrous milk fat</u>								
EC	111,000	129,000	146,000	17,000	49,000	29,000	15.3	38.0	19.9

^aFood aid for Canada is fiscal year, while total export figures relate to calendar year.

Note: Foreign donations of butteroil and butter by the United States in 1985 totalled some 31,000 tons (butter equivalent).

International prices

121. Since 1 October 1981, the minimum export price of skimmed milk powder had been US\$600 per metric ton f.o.b. During the first quarter of 1985, prices of skimmed milk powder were within a range of US\$600 to US\$650 per ton f.o.b. During the second quarter of 1985, they had stabilized at around US\$630 to US\$700 per ton f.o.b. In the first half of 1985, the prices at the lower end of the bracket were those of skimmed milk powder for animal feed. During the third quarter of 1985, prices of skimmed milk powder for human consumption were within the range of US\$685 to US\$800 per ton f.o.b. The depreciation of the United States dollar vis-à-vis other currencies and the lower level of production had contributed to the strengthening of prices. During the fourth quarter of 1985, prices fluctuated between US\$750 and US\$800 per ton f.o.b. During the first quarter of 1986, they ranged between US\$812 and US\$860 per ton f.o.b. However, since the beginning of March 1986, prices had fallen and during the second quarter of 1986, they were within the range of US\$650 to US\$740 per ton f.o.b.

Whole Milk Powder

Production

122. Aggregate output of whole milk powder, which was more closely related to specific demand than some other dairy products, continued to increase in 1985 but at a slower rate than in 1984. In the EC, the world's leading producer, output in 1985 reached 724 thousand tons, 0.7 per cent less than in 1984. According to provisional data, production in the first quarter of 1986 showed a decline of 6 per cent. In New Zealand production rose by 7.2 per cent in 1985 to some 148 thousand tons; it increased in the first quarter of 1986 by 32.7 per cent. However, for the 1985/86 season, production for export was estimated to be slightly above the 1984/85 production. In Australia, output increased by 10 per cent in 1985 and for the 1985/86 season was forecast to increase by 14.2 per cent in response to increased export orders. In Finland, production increased by 9.7 per cent in 1985; in the first quarter of 1986 it rose by 20 per cent. However, it was estimated that production during 1986 would be around 31 thousand tons as against 34 thousand tons in 1985. In Poland production increased marginally in 1985 while it declined in Switzerland.

123. In Austria, production decreased by about 24 per cent in 1985. Output progressed also in the United States.

Trade

124. Total exports of whole milk powder by the main exporter participants increased slightly in 1985. However, in the first quarter of 1986 total exports of the same participants showed a marginal decline in relation to the corresponding period of 1985. The EC remained the leading exporter of whole milk powder, exporting 484 thousand tons in 1985, i.e. 1.7 per cent less than in 1984. According to provisional data, exports declined in the first quarter of 1986, in line with production. Exports from New Zealand, the world's second largest exporter, increased by 26 per cent in 1985 to 135 thousand tons and continued to increase in the first quarter of 1986.

The main outlets were South and East Asia, Central America and USSR. Exports from Australia increased by 16 per cent in 1985. Exports in 1985/86 were estimated at 40 thousand tons as compared to 36 thousand tons in 1984/85. In 1985, the principal destinations were South and East Asian countries. Exports from Finland, which went exclusively to the USSR, increased by 10 per cent in 1985 to 33 thousand tons. Due to the expected decline in production in 1986, export availability was likely to be lower, between 30 and 33 thousand tons.

125. The United States exported 40 thousand tons of whole milk powder in 1985, of which 24 thousand tons to Spain, while total exports for 1984 had amounted only to 6 thousand tons.

Stocks

126. Stocks of whole milk powder at 1 April 1986 were higher in New Zealand, Australia and Finland in relation to their level at 1 April 1985.

International prices

127. At a special meeting held on 31 May 1985, the Committee of the Protocol Regarding Certain Milk Powders decided to reduce the minimum price of whole milk powder from US\$950 to US\$830 per metric ton f.o.b. This decision took effect on 5 June 1985. International prices of whole milk powder had weakened in 1984, a trend that continued into early 1985, with prices between US\$850 and US\$960 per ton f.o.b. in the first half of the year. The decline was mainly due to the appreciation of the United States dollar. It should be noted that prices at the lower end of the bracket were very close to the new minimum price of US\$830 per ton f.o.b. and were giving rise to concern. However, the market improved later in the year with prices in the range of US\$890-US\$1,010 per ton f.o.b. in the third quarter and US\$950-US\$1,000 per ton f.o.b. in the fourth quarter. In the first half of 1986, prices ranged between US\$990 and US\$1,050 per ton f.o.b. in the first quarter and between US\$900 and US\$1,050 per ton f.o.b. in the second quarter.

Buttermilk powder

128. In New Zealand, output of buttermilk powder decreased in 1985, while exports were increasing. During the first quarter of 1986, production was slightly up, but exports were nearly one third less than in the corresponding period of 1985. Stocks were, however, down from 18,400 tons at end-December 1985 to 13,200 tons at end-March 1986. In Australia, production and exports of buttermilk powder increased in 1985. However, during the first quarter of 1986 both production and exports decreased in relation to the corresponding period of 1985. In January 1985, New Zealand notified its intention of selling to Spain 3,000 tons of buttermilk powder for animal feed at less than the minimum price under Article 3:5 of the Protocol. In Sweden and Switzerland the small quantities of buttermilk powder produced were used for domestic consumption. EC production of buttermilk powder amounted to 48 thousand tons in 1983, but had reportedly declined to 40 thousand tons in 1984 (1985 figures not available).

129. Since 1 October 1981 the minimum price of buttermilk powder had been US\$600 per metric ton f.o.b., i.e. the same as the minimum price for skimmed milk powder.

SYMBOLS CONT'D

L/6045

COM. TEX/W/185

MIN(86)INF/2

VAL/25

SCM/W/117

ADP/W/125

NTM/W/17/Add.2

Other Dairy Products

Whey in powder or block, or concentrate

130. Total world production of whey powder showed a steady increase over recent years, from about 1 million tons in the mid-seventies to about 2 million tons in 1985. This figure should be considered to be merely a rough estimate as statistics still remained incomplete. Only a few years ago most of the whey was disposed of in drains and waterways, but increasing concern about the unfavourable effect of such disposal on the environment and increased demand for whey and whey products used as food ingredients and in pharmaceutical application has led to the processing of whey into a range of products.

131. The European Communities remained the main producer of whey powder, and Community production including whey concentrate and other whey products, amounted to 760 thousand tons in 1985, about 4 per cent more than in 1984. A smaller increase was expected for 1986. Available information for the first four months of 1986, indicated a decline of nearly one quarter in Community exports of whey concentrate.

132. Production of whey powder and concentrated whey continued to expand also in other European countries, in 1985 amounting to 1.9 thousand tons in Hungary, 2.6 thousand tons in Norway, and 38.5 thousand tons in Sweden, while Switzerland experienced a further decline in its production of whey powder.

133. Production of whey powder in Australia exceeded 8 thousand tons in 1985. Whey powder exports, which in 1983/84 had reached a peak of 9.4 thousand tons, were down to 3 thousand tons in 1985. New Zealand production in that year reached 13.5 thousand tons. Since the establishment of the Whey Products Corporation in 1982, substantial efforts were made to develop new outlets for whey and whey products. In 1985, nearly one half of the whey solids available from the New Zealand dairy industry was processed into a wide range of whey products. The product range included whey protein concentrates, whey powders, lactoalbumins, ethyl alcohol, lactose and whey cheese. The majority of these products were sold into the food ingredient trade with many lines having been specially developed to suit the requirements of individual customers and applications. Export earnings of whey products exceeded 30 million dollars in 1985/86, and prospects of further developments were good.

134. In 1985, Japan remained the most important outlet for whey powder, importing 15.3 thousand tons, supplied mainly by Canada, the Community, Australia, New Zealand and South Africa. Supplies from the United States, were reduced to about 100 tons. Imports into Bulgaria reached 8.2 thousand tons in 1984. Other major importing countries for whey powder in 1984 were Mexico 8.5 thousand tons, Chile 3.5 thousand tons, China 4.8 thousand tons, Republic of Korea 9.5 thousand tons, Pakistan 8 thousand tons and the Philippines 4 thousand tons.

135. In 1985, Austrian whey powder production remained at the level of recent years, around 3.5 thousand tons, which was almost entirely disposed of on the internal market mainly as feed. Canadian whey powder production was down by nearly one quarter compared with the previous year and total production for 1985 amounted to 47 thousand tons. On the contrary, United States production of whey powder showed a strong recovery in 1985, with a 10 per cent increase and total annual production reaching 431 thousand tons.

136. Whey powder prices remained low throughout the first half of 1986, with international prices as low as 250 dollars per ton in June 1986, compared to average Australian quotations for the second half of 1985 of 555 dollars per ton. There might of course be a considerable variation in whey powder prices, according to difference in quality and use.

Concentrated Milk

137. In 1985, total world production of condensed and evaporated milk amounted to 4.68 million tons, which meant a slight decline from the previous year. This was mainly the result of reduced production in the EC, Australia and Canada, which outweighed further expansion in India, Malaysia and the USSR. Developing countries in the Far East had by 1985 expanded their aggregate production of condensed milk to a total of 520 thousand tons, a level comparable to the traditional level of production in the Federal Republic of Germany, the Netherlands and the USSR. World trade in concentrated milk in 1985 was of the same order as in previous years, around 770 thousand tons. Prices remained steady throughout 1985/86 on the average 4 to 5 per cent above those of the previous year (Dutch coffee milk).

138. Community production of condensed milk fell by 2 per cent from 1984 to 1985, in the latter year amounting to 1.3 million tons. Figures for the first four months of 1986 suggested a further decline of 10 per cent, the reason being slack demand on the world market. While Community exports had recovered appreciably in 1985, reaching a total of 542 thousand tons, there was a decline in January to April 1986, when exports were down by 25 per cent compared to the same period of 1985.

139. In Norway, production of condensed milk remained at the traditional level of 10 thousand tons in 1985. Swedish production of condensed milk, which had been declining over three consecutive years recovered in 1985, reaching a total of 12 thousand tons. A similar development took place in Hungary, where production reached 3 thousand tons in 1985. There was a slight decline in production in Switzerland from 3.9 to 3.8 thousand tons from 1984 to 1985, while there were only minor changes in consumption (5,000 tons) and trade (imports 1,600 tons, exports 500 tons).

140. In Australia, production of condensed, concentrated and evaporated milk showed an appreciable recovery in 1984, reaching 81.2 thousand tons, an increase of 12 per cent compared to the previous year. In 1985, however, production was again on the decline. Australian exports of condensed and evaporated milk were declining for the fourth consecutive year in 1985 amounting to less than 5 thousand tons compared to more than 10 thousand tons a few years earlier. In Argentina, production of condensed milk amounted to 4.5 thousand tons in 1985, corresponding to internal consumption. In 1985, both production and consumption declined by roughly one fourth, there were no exports and stocks were further reduced. South African production in 1985 was 24 thousand tons and the downward trend appeared to have continued in 1986. Exports were negligible.

141. In Canada, production of concentrated whole milk recovered strongly in 1984/85, reaching 174.6 thousand tons but preliminary figures for 1985/86 indicated a significantly lower production at about 145 thousand tons. Consumption had been steadily declining since 1982, and more than two

thirds of Canadian production was exported in subsequent years. In 1984/85 exports amounted to 137 thousand tons, but were for the subsequent year 1985/86 expected to reach only 105 thousand tons following a 20 per cent reduction in the special export programme for 1985/86. The high production and exports in 1984/85 were due to relatively favourable prices for concentrated whole milk compared to those for milk powder, which made sales of concentrated milk both to the domestic and export markets more attractive. Furthermore, export promotion efforts might have also helped to increase Canadian exports of condensed milk, notably to certain markets in Africa in 1984/85. In 1985, Canadian producers donated canned concentrated milk to Ethiopia and Mexico; 400 thousand and 6 thousand litres in terms of milk equivalent, respectively. United States production of condensed milk which had recovered sharply in 1984 was again high in 1985, notably from April 1985 on. However, the expansion in production levelled off later in the year and was for 1986 expected to show a decline of as much as 10 per cent. Austrian production of condensed milk showed a recovery from its low level in 1984, increasing by 5 per cent and amounting to nearly 15 thousand tons in 1985. In the USSR condensed milk production increased by 2.5 per cent from 1984 to 1985, reaching a total of 575 thousand tons, and the same level was expected to be attained in 1986. In 1985, 20 thousand tons were exported which was 10 per cent less than the average for recent years, and exports were expected to remain low in 1986 as well.

142. Imports of condensed milk into developing countries had been declining over recent years. Notably there had been a decline in imports into countries in Africa and Latin America, while imports into countries in Asia continued to increase. Total imports into developing countries amounted to 660 thousand tons in 1985.

Casein

143. Total world production of casein which in 1984 was slightly lower than in the previous year, recovered in 1985 and again reached the relatively high level of 1983, amounting to 243 thousand tons. Half of this was accounted for by Community production of casein which rose by some 22 thousand tons from 1984 to 1985, in the latter year totalling some 145 thousand tons. In New Zealand production of casein and caseinates reached 73 thousand tons in 1985, an increase of 17 per cent compared with 1984. Production remained at traditional levels in Norway (1.4 thousand tons) and Austria (1.8 thousand tons). Polish production declined by 5 per cent amounting to some 40 thousand tons in 1985.

144. Australian casein production which in 1984/85 was down to 8 thousand tons declined further in 1985/86 to 7 thousand tons. These declines were attributed to higher than normal carry-over stocks and a change in product mix because of environmental problems associated with casein production. Casein production in Argentina recovered in 1985 again exceeding 2 thousand tons, compared to 1.9 thousand tons in 1984.

145. The upward trend in total world casein trade continued in 1985 when it it totalled about 200 thousand tons. Total Community casein exports reached 89.4 thousand tons in 1985, up 19 per cent from the previous year and imports rose from 18.4 thousand tons to 24.1 thousand tons.

146. Casein exports from Poland continued their expansion in 1985, reaching 20 thousand tons or increasing by 15 per cent from the previous year, while exports from other European countries outside the Community showed little change. Exports from Argentina and Uruguay remained at the relatively low levels of the two preceding years in 1985. Australian exports declined in 1984/85 and the downward trend continued into 1985/86. It was notably exports to the United States that were reduced.

147. New Zealand exports of casein continued to expand in 1985, for 1984/85 reaching 77 thousand tons with substantial increases in sales to the United States and the Community. This resulted in a reduction of stocks from 39 thousand tons at the end of 1983/84 to 25 thousand tons at the end of 1984/85. A further stock reduction was forecast for the current year and stocks were at the end of May 1986 less than 20 thousand tons. The expansion of New Zealand casein exports with record levels of sales of all casein products, was the result of sustained sales efforts over a wide front and in all major markets. Significant developments of industry resources and manufacturing facilities enabled a higher proportion of the total casein product mix to be processed into products suitable for direct sale to end-users, offering a wide range of casein, caseinate and co-precipitate products. Research institutions and the Ministry of Agriculture and Fisheries had joined in an initiative to improve the quality of New Zealand casein and to adapt the product to market requirements. The market growth in 1985 was also influenced by a levelling off in prices following the peaks of earlier years. The ensuing relative price stability tended to build users' confidence in casein products.

148. Imports of casein into Japan which had remained stable over recent years at a level of 23 thousand tons, rose to 24.4 thousand tons in 1985, with New Zealand supplying half of the market and the rest coming from the Community and Australia.

149. The main outlet for casein in 1985, continued to be the United States, with imports reaching a total of 105 thousand tons, increasing by 20 per cent from the previous year, and with prospects for a further increase in 1986. Wholesale prices in the United States were under some pressure in 1985, being 5 per cent lower than in 1984. A USDA study was conducted to determine whether imports of casein tended to interfere with or rendered ineffective the United States milk price support programme. The study was published in April 1986, and concluded, inter alia, that a 50 per cent quota on imports might reduce CCC purchases of cheese and price support programme costs by about US\$84 to 300 million, but consumers' expenditure would increase by US\$180 million. A 50 per cent tariff would have little impact on the cost of the price support programme, while it could increase consumers' expenditure by about US\$66 million. The only action taken by the US Government was a change made in the tariff classification of casein, from being a chemical industry product to being a food product.

150. World market prices for casein remained stable throughout 1985 and early 1986. However, from April 1986 onwards, prices came under pressure as a result of abundant supplies. In May 1986 edible casein was quoted at 92 US cents per 100 lbs or just above US\$2,000 per ton (wholesale) in the United States market, 5 per cent lower than one year earlier and prices were also lower in Community markets.