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WORLD MARKET FOR DAIRY PRODUCTS 1986

SEVENTH ANNUAL REPORT PUBLISHED BY THE GATT SECRETARIAT

Despite measures taken to limit milk production in many countries, during 1986, supplies have, nevertheless, been excessive with surplus stocks of some dairy products continuing to depress the international markets. This is one of the findings contained in GATT's annual report¹ on the international dairy products market, published today.

Among the major trends identified in the report are the following:

- total world milk production reached 507.5 million tons in 1985 (a 1.4 per cent increase on 1984) and is expected to grow by a further one per cent this year;
- although the market for some dairy products had improved appreciably in 1985 and early 1986, the market for butter and anhydrous milk fat was adversely affected by excessive supplies and heavy stocks for 1986 as a whole;
- concern by consumers over pasture radiation levels following the Chernobyl nuclear accident led to a temporary fall in fresh milk demand and a consequent increase in milk processing. A substantial part of the unexpected production, notably of butter and skimmed milk powder, went into already over-burdened intervention stocks.

¹The World Market for Dairy Products 1986 Seventh Annual Report - available in English, French and Spanish from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21, Switzerland. Price Sw F 12.-.

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The Seventh Annual Report issued under the GATT International Dairy Arrangement reviews the situation on the world market for dairy products. It covers developments in 1985 and the first half of 1986. It is, to a great extent, based on the work of the International Dairy Products Council and its Protocol Committees. A series of detailed statistics is provided for the products covered by the Arrangement, notably certain milk powders, butter and anhydrous milk fat and certain cheeses.

Main points from the Report

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 the European Communities' milk production showed an appreciable decline of 1.7 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.

Milk supplies were again excessive in 1986 and surplus stocks of some dairy products continued to increase as milk production was favoured by abundant feed supplies at low prices and as demand, notably of butter, faced strong competition from vegetable fats.

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 slightly to a total of 3.15 million tons in 1985. Total world production of skimmed milk powder was again lower in 1985, amounting to 4.2 million tons. For the early 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 powder production was expected to increase in 1986.

The quantity of milk available for processing tended to increase in major producing countries as liquid milk consumption was unchanged. This trend was 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. World consumption of skimmed milk powder decreased in 1985 with a marked decline in some developed countries. Cheese consumption increased by another 3 per cent in 1985, and was expected to grow further in 1986.

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 820 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.

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 1965 did not produce the results hoped for.

Increased milk production and slack demand for some dairy products resulted in further accumulation of stocks in 1986. By the middle of the year, butter stocks in the European Communities had reached new record levels; in September 1986 amounting to nearly 1.4 million tons. In the United States, commercial stocks of dairy products were again replenished in 1986 after having been low in the middle of 1985; and further increases in dairy stocks both in the United States and Canada were expected. 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.

New minimum export prices under the International Dairy Arrangement came into effect on 2 October 1986, in the case of certain cheeses (US\$1,030 per ton f.o.b.), whole milk powder (US\$880 per ton f.o.b.), skimmed milk powder and buttermilk powder (US\$680 per ton f.o.b.). The minimum export prices for butter and anhydrous milk fat remained unchanged at the levels at which they had been since 5 June 1985 (respectively US\$1,000 and US\$1,200 per ton f.o.b.).

Note to Editors

The International Dairy Arrangement came into operation on 1 January 1980, and was a result of the Multilateral Trade Negotiations (the 'Tokyo Round') of 1973 to 1979. It was, in some respects, a successor to the Arrangement Concerning Certain Dairy Products of 1970. It was extended in 1985 until 31 December 1988.

The objectives of the arrangement are: to achieve the expansion and ever-greater liberalization of world trade in dairy products under market conditions as stable as possible, on the basis of mutual benefit to exporting and importing countries; and to further the economic and social development in developing countries. In adopting these objectives, the economic importance of milk and dairy products to many countries, and the need to avoid surpluses and shortages and to maintain prices at an equitable level were recognized.

These objectives are pursued through the activities of the International Dairy Products Council and the Committees of the Protocols. Three Protocols are annexed to the Arrangement: the Protocol Regarding Certain Milk Powders; the Protocol Regarding Milk Fat and the Protocol Regarding Certain Cheeses, which are integral parts of it. Under these Protocols, minimum export prices have been established for skimmed milk powder, whole milk powder, buttermilk

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powder, anhydrous milk fat, butter and certain cheeses. Participants have undertaken to take the steps necessary to ensure that these minimum export price provisions are complied with. The Committees make quarterly reviews of the market situation for the respective products, and quarterly reviews of the application of the provisions of the Protocols by participants, notably their observance of the minimum export prices. The Council makes an evaluation of the market situation twice a year, based on background documentation established by the Secretariat.

As of 1 November 1986, the Arrangement had the following participants: Argentina, Australia, Bulgaria, Egypt, the European Communities, Finland, Hungary, Japan, New Zealand, Norway, Poland, Romania, South Africa, Sweden, Switzerland and Uruguay. Other countries have been represented at meetings by observers.

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