

GATT/1495
27 November 1990

EMBARGO: NOT FOR PUBLICATION
BEFORE 0001 HOURS GMT,
30 NOVEMBER 1990

FALLING PRICES AND RISING EXPORT STOCKS UNSETTLE WORLD DAIRY MARKET

After reaching record levels in 1989, world dairy prices started softening this year as production continued to grow. This, together with falling butter consumption in many industrialised countries, has led to more offers of butter for exports - forcing the GATT Protocol Committees on dairy products to urge, recently, that signatories fully observe minimum export prices and to appeal to other dairy-producing countries for their cooperation.

These are among the findings contained in GATT's annual report on the international dairy products market, published today.¹

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

- World milk production was rising at a rate of 1.5 per cent in 1990 as output again increased in the United States and the European Communities;
- Prices of butter and skimmed milk powder have been under downward pressure since the beginning of the year. In 1989, a balanced supply-and-demand situation had almost eliminated intervention stocks of these products.

¹The World Market for Dairy Products 1990, Eleventh Annual Report - available in English, French and Spanish from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21, Switzerland. Price SwF 25.

- World butter production in 1990 continued to grow at 1989's rate of 1.4 per cent. Vigorous demand for low-fat products in many countries has led to a substantial surplus of milk fat which is usually turned into butter. Falling butter consumption in North America and Europe have resulted in more butter being available for export. Higher retail prices in Eastern Europe have dampened demand for butter there. As more butter was offered in the world market, prices started to fall entailing more intervention purchases by governments.
- The Gulf crisis has adversely affected trade in dairy products. Iraq and Kuwait had been importing annually some 50,000 tons of milk powders, some 20,000 tons of cheese and about 10,000 tons of butter and anhydrous milk fat in recent years. Offering some compensation has been a rising demand in other OPEC countries.
- Cheese was one bright spot. While production continued to grow by 1.2 per cent in 1990, rising cheese consumption has engendered a lively import demand and expanding trade.
- In late 1989 and throughout 1990, prices for dairy products came under pressure in international markets. Some offers and sales of butter and skimmed milk powder were reportedly made at prices below the minimum export prices agreed in the Protocol Committees. Since sales of various dairy products are handled by the same operators, the depressed market prices for butter have also adversely affected sales and prices of other dairy products, notably milk powders.
- The Protocol Committees established under the International Dairy Arrangement, concerned about the unsatisfactory situation dominated by a fragile butter market, have called on participants to fully observe the minimum export prices. An appeal was also made to non-participants not to offer or sell dairy products at prices below prevailing market prices and, in any case, not below the agreed minimum export prices. The minimum export prices have remained unchanged since September 1989.

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 has been extended until 31 December 1991.

The objectives of the arrangement are: to achieve the expansion and ever-greater liberalization of the 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. Under the provision of these Protocols, minimum export prices have been established for skimmed milk powder, whole milk powder, buttermilk 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 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 and reviews the functioning of the Arrangement.

As of 1 December 1990, the Arrangement had the following participants: Argentina, Australia, Bulgaria, Egypt, the EC, Finland, Hungary, Japan, New Zealand, Norway, Poland, Romania, South Africa, Sweden, Switzerland and Uruguay. Other countries have been represented at meetings by observers. During its eleven years of operation, the Arrangement has proven to be a valuable instrument in restoring and maintaining the order in the international dairy market.