GATT's annual report on the international dairy products market is published today. The report indicates a number of trends currently affecting international trade in this sector:

- prices in the world dairy market have remained depressed throughout 1984 and the first half of 1985 though there is some reason for optimism in the cases of milk powder and cheese where prices may improve in late 1985 and 1986;

- the volume of international trade in dairy products recovered during 1984 and early 1985 helped by considerable disposals of some products as food aid;

- while there was an appreciable decline in stocks during the first part of 1985, including butter stocks, the outlook for milk and butter production in the near future has led to fears that heavy stocks will continue to depress world market prices for butter for some time to come.

The Sixth Annual Report issued under the GATT International Dairy
Arrangement reviews the situation on the world market for dairy products. It
covers developments in 1984 and the first half of 1985, and the outlook
for 1985/86. It is, to a great extent, based on the work of the Inter­
national Dairy Products Council and its Committees of the Protocols. A
series of detailed statistics is provided for the products covered by the
Protocols to the Arrangement, i.e. certain milk powders, milk fat (notably
butter and anhydrous milk fat) and certain cheeses.

International dairy product prices, which had been seriously depressed
throughout 1984, remained so during the first half of 1985. The September
1985 review of the market situation undertaken by the Council and the
Committees of the Protocols revealed a certain amount of optimism and it
was expected that in the case of some dairy products, such as milk powder
and cheese, the situation would improve slightly in 1985 and 1986. In the
case of butter, heavy surplus stocks continued to have a depressive effect
on the market and the situation remained one of concern.

World production of milk did not increase further in 1984, but
remained at the high level reached in the previous year. This was
largely due to efforts made in Western European countries and the United
States to limit milk output, and which in effect resulted in reduced
milk production in these countries. In 1985, the decline in milk
production was expected to continue in Western Europe, but production
was again increasing in the United States, the USSR and in some other
areas, and total world milk production was expected to be 1 to 1.5 per
cent above that of the preceding year, thus resuming the upwards trend.

International trade in dairy products showed an appreciable
recovery in 1984. This was notably the case for cheese. Trade in milk
powders and anhydrous milk fat increased mainly as a result of increased
supplies of food aid. In 1984, food aid supplied by participants to the
Arrangement accounted for 52 per cent of their total exports of skimmed
milk powder. Thirty-eight per cent of total Community exports of
anhydrous milk fat was food aid. The international butter market
continued to remain depressed, and heavy discount sales to the USSR and
other markets have not resulted in an expansion of total trade. However,
efforts made in some countries to increase domestic consumption were
apparently successful, but there are doubts as to whether they will have a
lasting effect.

There was an appreciable decline in stocks during the first part of
1985, notably for milk powders and cheese. Even butter stocks were slightly
reduced but they have nevertheless remained excessive and the outlook for
milk and butter production in the near future gives reason to fear that
heavy butter stocks will continue to depress world market prices for butter
for some time yet.

The downward trend in international prices was checked during 1985 for
most dairy products, notably powders and cheese, but prices for butter
remained depressed and the situation is indeed one of concern.
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 recently been extended 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, and it was considered that improved co-operation in the dairy products sector contributed to the attainment of the objectives agreed upon in the Tokyo Declaration of 14 September 1973.

These objectives are advanced through the activities of the International Dairy Products Council and the Committees of the Protocols. The Council makes an evaluation of the market situation twice a year, based on background documentation established by the secretariat. 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 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 being complied with. The Committees are making 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.

As of 1 November 1985, the Arrangement had the following participants: Argentina, Australia, Bulgaria, Egypt, the European Economic Community, Finland, Hungary, Japan, New Zealand, Norway, Poland, Romania, South Africa, Sweden, Switzerland and Uruguay. Other countries have been represented at meetings by observers. The United States participated in the Arrangement until 12 February 1985 and Austria until 9 June 1985.