GATT REPORT: THE WORLD DAIRY MARKET RECOVERS IN 1987

The world dairy market showed signs of recovery in 1987 as efforts in many countries finally brought to a halt the upward milk production trend which had led to surplus stocks and depressed prices. This is one of the findings contained in GATT's annual report on the international dairy products market, published today.

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

- total milk production in 1987 is expected to stabilize at the 1986 level (520 million tons, a 1.4 per cent increase on 1985), due mainly to reduced production in the European Communities, New Zealand and the United States;

- the disposal of surplus stocks at extremely low prices in 1986 and early 1987 had maintained the fragility of the international market for butter and anhydrous milk fat, but at the same time the reduction in stocks gives some hope for market improvement in 1988;

- the import demand for cheese and milk powders recovered appreciably in 1987 while quantities available for exports were reduced and the prices firmed up.

The Eighth Annual Report issued under the GATT International Dairy Arrangement reviews the situation on the world market for dairy products. It covers developments in 1986 and the first half of 1987 as well as the outlook for 1987/88. 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

In spite of the stagnation or even decline in milk production in many countries, world milk output reached 520 million tons in 1986 - a 1.4 per cent increase on the 1985 figure. From 1985 to 1986, milk production in the USSR rose by almost 2.5 per cent, while the United States and the European Communities posted increases of 0.7 and 1.4 per cent, respectively. Production levels lifted appreciably in India, China and Indonesia.

Initial 1987 figures indicate that the world milk production has stopped expanding. Milk production had continued to increase in India and the USSR, but this was more than outweighed by reduced production in the European Communities, New Zealand and the United States. While the overall decline appears to be modest, it gave hope that the upward production trend which had persisted for many years had finally been halted - or even reversed.

The world produced 7.8 million tons of butter in 1986 - a 2.2 per cent rise on the 1985 level. The 150,000-ton expansion in EC production accounted mainly for the increase in world output. In contrast, butter production was substantially lower in Australia, New Zealand, and in some non-EC European countries. In the US, high butter production in early 1986 gave way to reduced levels for the rest of that year leading to an annual decrease of 4 per cent as compared with the 1985 figure.
The rise in EC butter production in 1986 is described as largely accidental because it was partly caused by the curtailment of fresh-milk sales arising from fear of radionuclide contamination in the spring of that year. Subsequent EC measures to discourage butter production led to a 15 per cent decline in the Community output during the first half of 1987. Together with the reduced butter production in Australia, New Zealand and North America, it was expected that world butter production would be significantly lower in 1987 and 1988.

World cheese production amounted to nearly 13 million tons in 1986 - a one per cent gain on 1985. The same percentage increase is forecast for 1987. Australia, Canada, Finland and the United States produced 4 to 5 per cent more cheese in 1986. The Community, Japan, Norway and Switzerland had a slower growth rate of one per cent while New Zealand, Australia and Sweden pared down their output. The demand for hard cheese and regional speciality cheeses strengthened in 1987 and this is expected to encourage greater production.

Total production of whole milk powder rose slightly between 1985 and 1986 to 2 million tons. Increased export orders lifted production levels in 1987. On the other hand, efforts to reduce butter production in several countries are likely to pull down the world output of skimmed milk powder in 1987. World production of skimmed milk powder reached a record level of 4.75 million tons in 1986.

New minimum export prices under the International Dairy Arrangement came into effect on 23 September 1987, in the case of certain cheeses (US$1,120 per metric ton, f.o.b.), whole milk powder (US$950 per ton, f.o.b.), and skimmed milk powder and buttermilk powder (US$825 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.). Recent trends in the traded prices of these products are shown in the attached charts.
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 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 1987, 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.
INTERNATIONAL PRICES OF DAIRY PRODUCTS 1980-1987
(US$ per metric ton f.o.b.)

Note: The charts show the relevant range of prices at which international sales were being made in the periods covered. The minimum prices for such sales, agreed by the International Dairy Council, are also indicated.