A decline in world milk production and the successful dispersal of huge surplus stocks ended a long slump in international dairy prices last year. The recovery is set to continue in 1988/89. These are among 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:

- After twenty years of continuous expansion, world milk production declined by 0.8 per cent from 1986 to 1987 due mainly to a five per cent drop in milk deliveries in the European Communities;

- in autumn 1988, there was hardly any surplus stock of dairy products as a result of a spectacular reduction in intervention stocks of butter and skimmed milk powder, notably in the European Communities and the United States;

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- world butter exports rose from 700,000 tons in 1986 to around 950,000 tons in 1987, largely reflecting substantial EC shipments to the Soviet Union at low prices;

- trade in cheese and milk powders recovered appreciably in 1987 with prices continuing to firm up;

- despite a drought, US milk production rose in 1988 and USSR output increased further helping outweigh a further decline in Western Europe - thus, world milk production in 1988 returned to its 1986 level;

- the market outlook for 1988/89 is that dairy prices in the world market would remain high or even increase further.

The Ninth Annual Report issued under the GATT International Dairy Arrangement reviews the world market situation for dairy products. It covers developments in 1987 and the first half of 1988 as well as the outlook for 1988/89. 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**

World milk output declined to a total of some 517 million tons (including sheep, goat and buffalo milk) in 1987, reflecting successful production and price policy measures adopted by many countries to reduce burdensome surpluses. European Communities' milk deliveries fell by 5.1 per cent; other Western European countries, Japan, New Zealand and the United States also produced less milk in 1987.

Preliminary figures, however, indicate that world milk production returned in 1988 to its 1986 level. While milk deliveries were further reduced or stabilized in Western European countries and Japan, the United States increased production despite the drought in the summer of 1988. Production also recovered in Canada, New Zealand and India, and rose further in the USSR.

Total output of cheese and whole milk powder continued to expand in 1987 to 13.7 and 2.2 million tons, respectively. World butter production fell by 400,000 tons to 7.4 million tons in 1987, mainly due to a 16 per cent decline in the EC production. World production of skimmed milk powder
decreased by 500,000 tons to 4.2 million tons mainly as a result of reduced butter production. World production of casein and concentrated milks also fell.

Reduced milk supplies and larger exports of dairy products drastically pared down surplus stocks, notably of butter and skimmed milk powder in 1987.

Total butter stocks in the EC, North America and Oceania stood at 1.15 million tons at the beginning of this year (about 30 per cent lower than a year earlier), and continued to decline during the first half of 1988. Community intervention stocks of butter fell by one-third and those of skimmed milk powder were halved. At the start of 1988, US and New Zealand stocks were at their lowest level in years. In the autumn of 1988, there were hardly any surplus stocks of dairy products, notably of butter and skimmed milk powder.

In September 1988, new minimum export prices for all products under the International Dairy Arrangement came into effect (per metric ton, f.o.b.): for skimmed milk and buttermilk powder, US$1,050; whole milk powder, $1,150; anhydrous milk fat, $1,500; butter, $1,250; and certain cheeses, $1,350.

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 1988, 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 Dairy Stocks and Prices, 1980-88

SKIMMED MILK POWDER STOCKS

BUTTER STOCKS 1980-88

SKIMMED MILK POWDER PRICES

WHOLE MILK POWDER PRICES

BUTTER PRICES

CHEESE PRICES

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