Buoyed by recent strong demand in many countries, world cheese prices should remain firm in the short-term. In contrast, an overhang of government stocks and shifting consumer preference towards low-calorie products have been exerting downward pressure on butter prices.

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 this year is expected to be 2.5 per cent less than 1990’s total of 532 million tons, mainly due to projected declines in milk output of the USSR (-10 per cent) and the European Community (-2 per cent).

A growing consumer preference for low-calorie products has dampened demand for butter leading to substantial surpluses of milk fat. Market prices for butter and anhydrous milk fat have remained at or slightly above minimum prices agreed in the GATT Dairy Protocol Committees as world butter production is expected to reach 7.55 million tons this year, or two per cent less than the previous year's total. World butter exports have been steadily declining: one million tons in 1988, 800,000 tons in 1989 and 700,000 tons in 1990. The declining demand has led to a 50-per cent rise in total stocks of butter in the European Community, North America and Oceania to 770,000 tons on 1 July 1991. World butter stocks are forecast to reach 1.08 million tons at the end of 1991, with the EC and the United States being the principal holders.

Events in the Soviet Union, which account for a quarter of the world's butter consumption, are having a major effect on the butter market. In the light of urgent food requirements in the USSR, the Committee of the Protocol Regarding Milk Fat in December 1990 had granted butter shipments to the Soviet Union a derogation from minimum export prices. Some 311,000 tons of butter under this derogation have been contracted for delivery this year. However, deliveries were delayed due to payment problems. With food relief requirements in the USSR envisaged to increase, a number of signatories to the International Dairy Arrangement have sought assurances that any decision to provide food aid to the USSR should cause only minimal disruption to the commercial market.

Depressed market prices for butter also adversely affected prices for milk powders in 1990. In 1991, however, powder prices firmed following a weakening of the US dollar and further restraints in milk deliveries, notably in the European Community.

World cheese exports grew by two per cent in 1990 to 887,000 tons. The GATT report foresees a further export growth of the same order this year. Higher cheese imports were registered last year in the European Community, the United States, the OPEC countries, and developing countries such as Brazil, with world market prices remaining well above agreed minimum prices. The international cheese market is dominated by Western Europe and New Zealand, which together account for over 75 per cent of world cheese exports.

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 1994.
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 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 provision 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 1991, 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 twelve years of operation, the Arrangement has proven to be a valuable instrument in restoring and maintaining the order in the international dairy market.