FALLING WORLD MILK OUTPUT PUSHES UP PRICES OF MILK POWDER AND CHEESE
BUT BUTTER MARKET REMAINS FRAGILE, SAYS GATT DAIRY REPORT

World milk production has been in a slight decline during the past two years, due mainly to efforts by the European Community and other countries to contain milk deliveries and the virtual collapse of commercial markets in Russia and Eastern Europe. Export prices of milk powders and cheeses have risen but butter prices remain depressed due to continued decline in consumption, and the high stock overhang.

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 amounted to 526.7 million tons in 1991, a decrease of 2.1 per cent from the previous year. While output was steady in North America and increased in Oceania and Japan, it declined in Western Europe, and particularly in Central and

Eastern Europe and Russia. Milk production in Russia and the Ukraine fell by an estimated 8 and 10 per cent respectively, due to insufficient feed supplies and the disruption of the dairy industry structure. For 1992, a decline of 1 to 2 per cent in world milk output is expected but milk supplies could nevertheless continue to exceed commercial demand.


- In 1991 and 1992, world trade in cheese was fuelled by a further growth in demand. World market prices were 13 to 16 per cent above the previous year levels, and well above the agreed minimum export prices.

- World butter production shrank by 4 per cent in 1991 and a further decline of 2 per cent is expected in 1992. The drop in output has been limited because substantial quantities of milk fat are produced as a by-product of light (fat-reduced) products, for which a vigorous demand persists. Consumption continues to decline and stocks of butter are relatively high.

- In 1991, less than 60 per cent of total butter shipped to Russia was under a derogation to the minimum export prices set under the Protocol Regarding Milk Fat (see below). In 1992, virtually all butter sold to Russia was under a United States credit guarantee programme.

- In contrast, the rise in non-commercial transactions to Russia resulted in a slight increase of total food aid in dairy products in 1991 and 1992. Requests for food aid are expected to increase. There are concerns that food-aid transactions could adversely affect world dairy markets unless agreed principles for providing aid are fully observed.

Note to Editors

The International Dairy Arrangement came into operation on 1 January 1980 - one result of the Tokyo Round of multilateral trade negotiations (1973-79). 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 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 importance of milk and dairy products to many countries. 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 agreed 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.

The following are participants to the Arrangement: Argentina, Australia, Bulgaria, Egypt, the European Community, 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 thirteen years of operation, the Arrangement has proven to be a valuable instrument in restoring and maintaining order in the international dairy market.