WORLD DAIRY MARKET FEELS IMPACT OF CHANGES
IN EASTERN EUROPE AND RUSSIA

Economic and social changes in Central and Eastern Europe are having a strong impact on the world dairy market. Lower consumption due to higher domestic prices, the collapse of intra-regional trade and the need for hard currency have led to an increase in exportable butter from these countries at reduced prices. At the same time, commercial shipments of dairy products to Russia, formerly the world’s leading butter importer, have fallen sharply. Thus, despite the downward trend in world milk production, butter exports have declined and stocks remain high.

These are among the findings contained in GATT’s annual report on the international dairy products market, published today.¹

Among the main points identified in the report are the following:

- The downward trend in world production of all types of milk continued in 1992 and 1993. World production in 1992 was 2 per cent below the 1991 level, as decreased output in Europe, Canada and the former Soviet Union more than offset increases in New Zealand, Australia, the United States and some Asian and Latin American countries.

Eastern and Central Europe and the former Soviet Union continued to experience significant drops in milk production as a result of the difficulties arising from their economic and political transitions as well as from drought. Moderate output reduction in the European Community, the Nordic countries and Canada were the result of government policies to reduce structural surpluses.

Favourable weather conditions and increased use of supplemental feeds resulted in increases in production in both New Zealand and Australia. New Zealand had record production in 1992, and this level may be exceeded in 1993. Australia's production in 1993 is expected to be the highest in two decades.

World butter production continued on its downward trend, but supplies still exceeded demand. The former Soviet Union had been the principal export market for butter, but since the beginning of its political and economic transition, its commercial import demand has fallen.

World production of skimmed milk powder declined while production of whole milk powder rose in 1992. The expansion occurred primarily in New Zealand, Poland and Australia. A number of traditional buyers, including Mexico, increased their imports of milk powders in 1992. This resulted in an expansion in world trade with prices for both skimmed milk powder and whole milk powder at relatively high levels.

The demand for cheese continued to expand, encouraging further growth in world cheese production. Trade in cheese remains brisk, with prices sustained at high levels.

The United States sharply increased its exports of dairy products in 1992, largely as a result of the Dairy Export Incentive Programme. During that year, bonuses totalling US$140.3 million were made available for exports of milk powders, butter and butter oil, and cheese.

In June 1993, the Committee of the Protocol Regarding Milk Fat (see below) granted a derogation from the minimum price provisions of the Dairy Arrangement for butter and butter oil exports to countries of the former Soviet Union. This is valid for quantities up to a maximum of 50,000 tons per participant, if contracts are concluded between 31 December 1993 and deliveries are made before 31 March 1994. As of mid-October 1993, however, participants had notified sales of only 7,700 tons.

Note to Editors:

The International Dairy Arrangement came into operation on 1 January 1980 - one result of the Tokyo Round. 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 was 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 provisions 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. Under specific circumstances, the Committees may grant derogations from the minimum export price requirements. The Council makes an evaluation of the market situation twice a year based on background documentation prepared by the Secretariat and reviews the functioning of the Arrangement.

The Arrangement has 16 participants: Argentina, Australia, Bulgaria, Egypt, the European Community (and its twelve member States), Finland, Hungary, Japan, New Zealand, Norway, Poland, Romania, South Africa, Sweden, Switzerland and Uruguay.

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