Explanatory Note

1. The present note has been prepared by the secretariat in accordance with Article IV:1(a) of the Arrangement and Rule 29 of the Rules of Procedure, and with the aim of facilitating the work of the Council and the Committees at their meetings in March 1986.

2. In preparing the note, the secretariat based itself mainly on replies to questionnaires, other information submitted by participants and observers as well as various information arising from the operation of the Protocol Regarding Certain Milk Powders, the Protocol Regarding Milk Fat and the Protocol Regarding Certain Cheeses. Furthermore, the secretariat used supplementary information available to it from various national and international sources, notably documentation from the FAO, the UN/Economic Commission for Europe, the OECD, the Commonwealth Secretariat, the Commission of the European Communities, Agriculture Canada and the United States Department of Agriculture.

3. The note provides information on production, trade, prices, consumption and stocks for milk and principal dairy products and covers developments up to and including 1985, and the outlook for 1986. The note should be read in conjunction with the statistical information contained in the following documents:

- DPC/W/53 - Milk Deliveries and Production - Statistical Note by the Secretariat
- DPC/P/W/32 - Committee of the Protocol Regarding Certain Milk Powders - Summary Tables
- DPC/F/W/22 - Committee of the Protocol Regarding Milk Fat - Summary Tables
- DPC/C/W/30 - Committee of the Protocol Regarding Certain Cheeses - Summary Tables

4. Delegations wishing to suggest modifications, corrections, or to provide additional information are invited to make relevant submissions to the secretariat, preferably in writing and as soon as possible. Such submissions might cover both the present note, and the statistical information mentioned in paragraph 3 above. It should be noted that the drafting of the present note was terminated on 14 February 1986.
TABLE 1
Levels of Minimum Export Prices

<table>
<thead>
<tr>
<th>Pilot products</th>
<th>US$/metric ton f.o.b.</th>
<th>since 1 October 1981</th>
<th>since 5 June 1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skimmed milk powder</td>
<td>600</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Whole milk powder</td>
<td>950</td>
<td>830</td>
<td></td>
</tr>
<tr>
<td>Buttermilk powder</td>
<td>600</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Anhydrous milk fat</td>
<td>1,440</td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td>Butter</td>
<td>1,200</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Certain cheeses</td>
<td>1,000</td>
<td>1,000</td>
<td></td>
</tr>
</tbody>
</table>

The minimum export prices are fixed for pilot products defined in the Arrangement taking account, in particular, of the current market situation, dairy prices in producing participants, the need to ensure equitable prices to consumers, and the desirability of maintaining a minimum return to the most efficient producers in order to ensure stability of supply over the longer term. Special note should be taken of the fact that new minimum prices for whole milk powder, anhydrous milk fat and butter were adopted on 31 May 1985. Minimum export prices must not be considered as market prices.
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<td>Buttermilk powder</td>
<td>33</td>
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<td>Butter</td>
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</tr>
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<td>Anhydrous milk fat</td>
<td>39</td>
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<td>Cheese</td>
<td>44</td>
</tr>
<tr>
<td>Other dairy products</td>
<td>44</td>
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</tbody>
</table>
Resumé of the Situation

General

1. World merchandise trade, which had suffered a serious decline in the early 1980s, recovered substantially in 1984, with the volume increasing by about 9 per cent and its value up by 5.5 per cent in current dollar value terms. The major force behind the expansion was the rapid growth in import demand in North America and, to a lesser extent, in Japan. World production was up by 5.5 per cent. In 1985, there was a considerable slowdown in the growth of world production and trade. Both world output and world trade were estimated to have increased by about 3 per cent in 1985. The market disequilibrium for agricultural products was further aggravated in 1985, as supplies of agricultural products increased by another 2 per cent, and there was a decline of 2.5 per cent in exports of such products.

2. The merchandise trade of developing countries in 1985 improved in the wake of a general economic recovery, but the performance differed from country to country. Countries with greater dependence on primary commodity exports benefited less from the upturn in the world economy, as export prices of many agricultural commodities declined in US dollar terms and growth in world agricultural trade was relatively slower than for trade of manufactured goods. The oil exporting developing countries continued to be adversely affected by the weakness in oil demand and depressed oil prices, which was likely to have repercussions on their import demand.

3. The recovery in output influenced the general employment situation. Employment increased rapidly in the United States and Canada, and stopped falling in Europe. However, with continued labour force growth, unemployment rates remained very high in several countries. Unemployment in developing countries is difficult to determine because of data limitations, but it would generally appear that population and labour force grew at a rate faster than growth in output in a number of countries.

4. The industrial countries as a whole were successful in curbing inflation in 1985 and the outlook for 1986 was a further slow down in the rate of inflation. The weakness of oil and commodity prices and a fall in interest rates contributed to this situation. The inflationary situation in most of the developing countries remained one of serious concern.

World dairy situation

Production

5. World production of milk was estimated at around 505 million tons in 1985, which was about 1 per cent more than last year. Another 1 to 1.5 per cent gain was forecast for 1986. Following a very slow growth during the first half of 1985, milk output grew faster in the second
half of the year due largely to developments in the EC and the United States. The EC showed a further decline of 2.2 per cent in output in 1985 due mainly to the milk quota system introduced to curb milk production; the United States, on the other hand, registered a sharp increase in 1985 due to favourable feed cost levels and the termination of the dairy diversion programme early in March. The combined cow milk output of the EC, the United States, the USSR, Australia and New Zealand (which accounted for about two thirds of world milk production and the bulk of world trade in dairy products) increased by less than 1 per cent to a level of 297 million tons in 1985. In the USSR, production increased but at a slower pace than had been expected due to drought conditions in summer. Australian output was higher due to good climatic conditions and improved yields while in New Zealand it fell by 2.3 per cent. Milk production increased in Austria, Bulgaria, Czechoslovakia, Finland, D.R. Germany, Spain, Portugal and Yugoslavia, while it fell in other European countries. Japan showed an increase of almost 3 per cent. In Canada milk production declined in 1985, following adjustments in the dairy programme. Milk production in the developing countries, which accounted for three quarters of world population but only one quarter of world milk output, showed a relative increase in 1985. Among the Asian countries, the fastest growth was registered by India and the People's Republic of China. In Latin America, some increases in milk output were shown by Argentina, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay and Venezuela. In Africa, however, shortages of feed and difficult economic conditions continued to influence milk production. Overall, milk production was down by nearly 5 per cent, but indications were that milk output was slowly picking up in Egypt, Ethiopia, Morocco and Tanzania.

6. World output of skimmed milk powder in 1985 at 4.2 million tons was 1 per cent lower than in 1984 when it had decreased by 7 per cent. According to first estimates, production was low in the EC, New Zealand, Australia, Finland, Hungary, Sweden, Switzerland and Canada; however, it rose in Poland, Japan, the United States and the USSR. It was estimated that world output of skimmed milk powder would increase by 1 per cent in 1986 as the United States and the USSR expanded production; however, output was expected to decline in the EC, Canada and Oceania. Butter production also declined further in 1985. At 7.6 million tons, it was about 1 per cent less than in 1984. It declined in the EC for the second consecutive year; it went down also in New Zealand, Australia, Poland, Finland and Canada. However, it rose in the United States and the USSR. The outlook for 1986 was that total world butter production would remain near 1985 levels. Declines were forecast in the EC, New Zealand, Finland and Poland while the larger milk output expected for 1986 could result in expanded production in the United States, the USSR and India. In 1985 world cheese production was estimated at 12.7 million tons which was about 2 per cent more than in 1984. The outlook for 1986 was for another increase of 2 per cent in production.
Trade

7. After having shown a slight recovery in 1984, international trade in dairy products was estimated to have declined in 1985. With increasing milk output and demand continuing to be slack overall, the excess of production over effective demand increased further in 1985. World trade in whole milk powder, and cheese have probably decreased while exports of skimmed milk powder and butter/butteroil have increased due mainly to increased deliveries as food aid. According to information for the first part of the year, exports of dairy products from Western Europe showed a decline in 1985 while exports from Oceania and North America progressed somewhat.

8. Following agreements reached in the Committee of the Protocol Regarding Milk Fat on 31 May 1985, to reduce minimum prices of butter and anhydrous milk fat and the adoption of a derogation permitting sales of old butter at prices below the minima, the Council decided to rescind the Resolution of 16 November 1984. It should be noted that so far, no sales of old butter were reported to have been made under the derogation of 31 May 1985.

9. As regards imports, purchases by Japan progressed during 1985. Imports by the USSR also might have increased somewhat in 1985. However, as demand continued to be curbed by difficult economic conditions accompanied by declining oil prices in the petroleum exporting countries, imports of dairy products by developing countries in 1985 were probably below the 19 million tons of milk equivalent registered for 1984.

10. The outlook for 1986 was for a reduction in exports of butter/butteroil but a gain in cheese trade. Surplus supplies of dairy products continued to overshadow the world market and would be more than adequate to meet world demand. In particular, heavy butter stocks would continue to depress world market prices for butter for some time yet. Efforts to curb milk output in Western Europe and North America would help to restore the equilibrium in the international dairy market. However, the process of adjustment will probably be slow, especially if feed supplies remain abundant and if feed prices continue to be low.

11. As supplies would remain in excess of demand during 1986, prices in international trade were likely to remain depressed. Expenditures on dairy price support in certain countries were likely to continue at high levels. Competition on export markets was expected to remain strong. A considerable proportion of international transactions would continue to take place on special terms.

Food aid

12. In 1984, food aid supplied by participants accounted for 52 per cent of their total exports of skimmed milk powder. Thirty-eight per cent of total Community exports of anhydrous milk fat was food aid. The EC's aid programmes for 1986 provided for smaller quantities of skimmed milk powder and butter oil than in 1985. United States donations of skimmed milk powder were up sharply in 1985 and were expected to continue at high levels in 1986. The United States have also supplied butter/butteroil and cheese as food aid.
Consumption

13. Generally, consumption of liquid milk had lagged behind production in a number of major producing countries, thus increasing the quantity of milk available for industrial processing. This trend had been accentuated by consumer preference for low fat milk. World consumption of skimmed milk powder, which had expanded in 1984 compared to 1983 decreased in 1985 with a marked decline in some developed countries. The bulk of consumption in the EC was for animal feed. In 1985, the Community feed use of surplus milk declined from the preceding year, but still amounted to nearly 2 million tons of skimmed milk powder or twice the global level of international trade in this commodity. In other countries of Western Europe, consumption increased somewhat while in Eastern Europe it remained stable. In Japan, consumption remained unchanged in 1985. In the United States the consumption of skimmed milk powder recovered in 1985 reaching a level of 346 thousand tons. A steady increase was observed in the United States consumption for animal feed which in 1985 amounted to 49 thousand tons. In the USSR, consumption continued to increase in 1985. For 1985, some improvements in butter consumption were expected in Eastern Europe, the USSR and Japan, while overall consumption was estimated to have declined in the EC and North America. In Oceania, consumption of butter was expected to increase slightly in 1985/86. Cheese consumption continued to increase by another 3 per cent in 1985, and was expected to grow further also in 1986.

14. In Western Europe, skimmed milk powder and liquid skim milk were mainly used for animal feed and their use was being subsidized. The EC, applied a number of measures to promote consumption of skimmed milk powder as feed. Consumption of butter and cheese was also supported in many countries by advertising campaigns, welfare distribution programmes, sales at reduced prices to dispose of surplus stocks and, in the case of butter, making the product competitive with vegetable fats. In the EC, measures like special Christmas sales and other promotional aids had been adopted. The extension of feed subsidies to cover old butter from intervention stocks was also being considered. In the United States, domestic consumption was expected to rise by 2 per cent because of growth in population and per capita income, lower real prices for dairy products and the national dairy promotion programme. In some countries, the price relationship between vegetable fats and butterfat was maintained by taxing the former or subsidizing the latter. The prices of vegetable fats remained lower in most instances. While an increase in margarine consumption was often accompanied by a decline in consumption of butter, trends in butter consumption seemed to depend also on factors other than price, such as consumer preference, in particular, and dietetic considerations. It should also be noted that in some countries, consumption declined in the whole fats sector.

Stocks

15. World stocks of skimmed milk powder at the end of 1985 were below their level of the beginning of the year and might continue to decline in 1986. The reduction of stocks recorded at the end of 1985 was primarily accounted for by reduction in public stocks in the EC and the
United States. Following sharp increases in world butter stocks in 1983 and 1984, stocks at the end of 1985 were estimated to be near year-earlier levels. Butter stocks were expected to decline throughout 1986 but would still remain in excess of market requirements. At the end of 1985, the bulk of butter stocks was held by the EC. Global stocks of cheese continued to be smaller with an ever growing demand for cheeses notably for speciality cheeses in many developed countries, and were expected further to decline in 1986.

16. On 1 October 1985, stocks of skimmed powder held by the EC, North America and Oceania totalled 1 million tons, one third less than a year earlier. The substantial decline in skimmed milk powder stocks was the result of a fall in world production together with an increase in food-aid donations. Public stocks of skimmed milk powder held by the EC on 1 October 1985 were 478 thousand tons as against 873 thousand tons in October 1984. Stocks of butter held by the same group of countries on 1 October 1985 amounted to about 1.46 million tons, 9 per cent less than one year earlier. The EC butter stocks, public and private, in December 1985 amounted 1,154 thousand tons as against 948 thousand tons at the end of 1984. The EC was currently holding 80 per cent of world stocks of butter (1.5 million tons). Moreover, nearly half of the stocks held by the EEC have been stored for more than eighteen months. The absolute stock levels remained a serious source of concern to the EC. In the United States, butter stocks held by the Commodity Credit Corporation, together with commercial stocks, on 1 October 1985 were sharply reduced to 136 thousand tons, showing a decrease of 30 per cent compared with their level on 1 October 1984. As milk production expanded stocks increased during the fourth quarter of 1985 to 149.7 thousand tons on 1 January 1986 against 134.5 thousand tons on 1 January 1985. New Zealand stocks have increased from 62 thousand tons on 1 October 1984 to 91,600 tons on 1 October 1985. Australian butter stocks at 22 thousand tons on 1 October 1984 were 29.5 per cent less than a year earlier.

International prices

17. The minimum prices of whole milk powder, butter and anhydrous milk fat, which had remained fixed since 1 October 1981 at US$950, US$1,200 and US$1,440 respectively, were revised downwards in May 1985. The new minimum export prices came into effect on 5 June 1985. Minimum prices of skimmed milk powder and buttermilk powder (US$600) and those of certain cheeses (US$1,000) remained unchanged. (Tables 1 and 2 and graphs 1 to 5)

18. The slide in dairy product prices, which began in 1982 due to keen competition in the international market continued in 1984 and during the first part of 1985. In the third quarter of 1984, prices of all major dairy products had drifted downwards except in the case of Cheddar cheese, the prices of which had somewhat stabilized. In the fourth quarter of 1984 and early 1985, prices of all other dairy products had further deteriorated. The minimum export prices of anhydrous milk fat and butter were provisionally suspended from 16 November 1984 to 31 May 1985. During that period around two hundred thousand tons of butter were sold at prices below US$1,200 per ton f.o.b. During the third and fourth quarters of 1985, prices of milk powders strengthened and the market for Cheddar cheese had remained relatively firm. As to butter
and anhydrous milk fat, prices remained very depressed, near the minimum export prices set under the Arrangement. Moreover, certain offers for the sale of butter reportedly were made at less than the minimum price. The price situation and the level of butter stocks continued to cause concern. In the short term, no significant recovery was foreseen in prices in international trade for dairy products as supplies were likely to remain well in excess of effective demand.
<table>
<thead>
<tr>
<th>Product</th>
<th>1984</th>
<th>1985</th>
<th>1986</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>January-March</td>
<td>April-June</td>
<td>July-September</td>
</tr>
<tr>
<td>Skimmed milk powder</td>
<td>700-760</td>
<td>690-760</td>
<td>640-720</td>
</tr>
<tr>
<td>Whole milk powder</td>
<td>980-1,100</td>
<td>970-1,100</td>
<td>950-1,050</td>
</tr>
<tr>
<td>Anhydrous milk fat b</td>
<td>1,700-1,900</td>
<td>1,700-1,800</td>
<td>1,480-1,750</td>
</tr>
<tr>
<td>Butter b</td>
<td>1,500-1,680</td>
<td>1,540-1,600</td>
<td>1,200-1,450</td>
</tr>
<tr>
<td>Cheddar cheese</td>
<td>1,200-1,350</td>
<td>1,150-1,300</td>
<td>1,150-1,250</td>
</tr>
</tbody>
</table>

*aMainly skimmed milk powder for human consumption. Some sales of skimmed milk powder for animal feed made according to Article 3:5 of the Protocol Regarding Certain Milk Powders have been made at lower prices than the ranges indicated.

*bThe minimum export prices of anhydrous milk fat and butter were provisionally suspended from 16.11.84 to 31.5.85. During that period, around two hundred thousand tons of butter were sold at prices below US$1,200/m.t.

*cSome sales of cheese below normal export quality made according to Article 7:2 of the Protocol Regarding Certain Cheeses have been made at lower prices than the range indicated.
SKIMMED MILK POWDER (1980-1985)

### International Prices

- **1980**: 1100
- **1981**: 1050
- **1982**: 1000
- **1983**: 950
- **1984**: 900
- **1985**: 850

### Minimum Prices

- **1980**: 500
- **1981**: 500
- **1982**: 500
- **1983**: 500
- **1984**: 500
- **1985**: 500
Graph 2

WHOLE MILK POWDER (1980-1985)

US$ f.o.b./metric ton

1 500
1 400
1 300
1 200
1 100
1 000
900
800
700
600
500
400
300
200
100
0


INTERNATIONAL PRICES

MINIMUM PRICES
Graph 3
ANHYDROUS MILK FAT (1980-1985)

INTERNATIONAL PRICES

MINIMUM PRICES\(^1\)/

\(^1\) Minimum prices partially suspended from 16.11.84 to 5.6.85 (broken line).
Graph 4:
BUTTER (1980-1985)

MINIMUM PRICES \({}\)

MINIMUM prices partially suspended from 16.11.84 to 5.6.85 (broken line).
Graph 5
CHEESE (1980-1985)
The Situation for Individual Products

Milk

Production

19. World milk production at about 505 million tons in 1985 was about 1 per cent higher than last year and a further gain of 1-1.5 per cent was projected for next year. The combined cow milk output of the EC, the United States, the USSR; Australia and New Zealand (which accounted for about two-thirds of the world total production and the bulk of world trade in dairy products) increased by less than 1 per cent to a level of 297 million tons in 1985 (Table 3). Following a very slow growth during the first half of 1985, milk output grew at a rapid pace in the second half of the year due largely to developments in the EC and the United States. The European Communities, the world's largest dairy exporting region, registered a further decline in output from 122.30 million tons in 1984 to 119.40 million tons or by 2.2 per cent in 1985 due mainly to the milk quota system introduced to contain production levels. The United States on the other hand, registered a sharp increase in 1985 due to favourable feed cost levels following the termination of the dairy diversion programme early in March. In the USSR production increased, but at a lower pace than had been expected earlier due to the appearance of drought conditions in summer. In Australia, good climatic conditions and higher milk yields led to an increase in milk production though at a much slower rate than in 1984. In New Zealand, milk production was expected to fall by 2.3 per cent to a level of around 7.26 million tons in 1985 compared to 7.43 million tons in 1984. Assuming normal weather conditions in 1986 production was estimated to total 7.47 million tons, 2.9 per cent more than in 1985.
<table>
<thead>
<tr>
<th>Country</th>
<th>1984 (million tons)</th>
<th>Change from year earlier (%)</th>
<th>Estimated 1985 (million tons)</th>
<th>Change from year earlier (%)</th>
<th>Forecast 1986 (million tons)</th>
<th>Change from year earlier (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EEC-10</td>
<td>122.30</td>
<td>-1.9</td>
<td>119.40</td>
<td>-2.2</td>
<td>118.64</td>
<td>-0.6</td>
</tr>
<tr>
<td>United States</td>
<td>61.43</td>
<td>-3.2</td>
<td>64.80</td>
<td>+5.5</td>
<td>67.10</td>
<td>+3.5</td>
</tr>
<tr>
<td>USSR</td>
<td>97.60</td>
<td>+1.1</td>
<td>99.55</td>
<td>+2.0</td>
<td>102.00</td>
<td>+1.5</td>
</tr>
<tr>
<td>Australia</td>
<td>6.11</td>
<td>+7.2</td>
<td>6.25</td>
<td>+2.3</td>
<td>6.37</td>
<td>+1.9</td>
</tr>
<tr>
<td>New Zealand</td>
<td>7.43</td>
<td>+9.1</td>
<td>7.26</td>
<td>-2.3</td>
<td>7.47</td>
<td>+2.9</td>
</tr>
<tr>
<td>TOTAL</td>
<td>294.87</td>
<td>+1.8</td>
<td>297.26</td>
<td>+0.8</td>
<td>301.58</td>
<td>+1.4</td>
</tr>
</tbody>
</table>
20. The global outlook for 1986 was that milk production would further increase by 1 to 1.5 per cent, largely due to a resurgence of milk production in the United States. Due to improved feed supplies and higher milk yield milk output was expected to increase also in Oceania. The European Communities was, however, likely to register a decline of about 0.6 per cent in milk output as a result of reduced milk delivery quotas and an anticipated decline in dairy cow numbers. Certain other European countries like Finland, Norway, Sweden, Switzerland, Poland, Hungary were also expected to show some declines in production. Production was expected to be higher in the USSR due to improved feed supplies and higher yield. More milk was also being forecast for India, China and certain other developing countries.

### TABLE 4

Rates of Change of Milk Production, Milk Yield and Dairy Cow Numbers in Six Major Milk-Producing Countries/Areas

<table>
<thead>
<tr>
<th></th>
<th>Milk Production</th>
<th>Milk Yield</th>
<th>Dairy Cow Numbers</th>
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<tr>
<td><strong>EEC - 10</strong></td>
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<td></td>
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</tr>
<tr>
<td>1984</td>
<td>-1.9</td>
<td>+14.5</td>
<td>-0.4</td>
</tr>
<tr>
<td>1985</td>
<td>-2.2</td>
<td>-0.5</td>
<td>-0.7</td>
</tr>
<tr>
<td>1986(^a)</td>
<td>-0.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>-3.2</td>
<td>-0.8</td>
<td>-2.4</td>
</tr>
<tr>
<td>1985</td>
<td>+5.5</td>
<td>+2.9</td>
<td>+2.4</td>
</tr>
<tr>
<td>1986(^a)</td>
<td>+3.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Australia</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>+7.2</td>
<td>+6.5</td>
<td>+0.7</td>
</tr>
<tr>
<td>1985</td>
<td>+2.3</td>
<td>+7.8</td>
<td>-5.3</td>
</tr>
<tr>
<td>1986(^a)</td>
<td>+1.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>New Zealand</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>+9.1</td>
<td>+5.3</td>
<td>+3.6</td>
</tr>
<tr>
<td>1985</td>
<td>-2.3</td>
<td>+2.9</td>
<td>+1.9</td>
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<tr>
<td>1986(^a)</td>
<td>+2.9</td>
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<tr>
<td><strong>Japan</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1984</td>
<td>+1.6</td>
<td>+1.1</td>
<td>+0.3</td>
</tr>
<tr>
<td>1985(^a)</td>
<td>+2.9</td>
<td>+1.5</td>
<td>+1.4</td>
</tr>
<tr>
<td>1986(^a)</td>
<td>+2.4</td>
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<tr>
<td><strong>USSR</strong></td>
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<td></td>
</tr>
<tr>
<td>1984</td>
<td>+1.1</td>
<td>+1.3</td>
<td>+0.2</td>
</tr>
<tr>
<td>1985(^a)</td>
<td>+2.0</td>
<td>+2.2</td>
<td>-1.0</td>
</tr>
<tr>
<td>1986(^a)</td>
<td>+1.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^a\) Forecast
21. Milk production in the European Communities totalled 122.30 million tons in 1984, 1.9 per cent less than year before. The reduction was primarily the result of efforts by the EC dairy producers to reduce production in order to conform to Community-wide "restraint levels" of production. In essence, the EC adopted a programme at the beginning of the 1984/85 fiscal year, under which milk deliveries were to be restrained to a "reference" level in each of the subsequent five years by way of a levy on milk deliveries over that level. The reference level was equal to the level of milk deliveries in 1981, plus 1.0 per cent, that is to say, 98.2 million tons. For the 1984/85 campaign, however, a supplementary amount was added to the reference level so that it totalled 99.4 million tons. This increased amount was intended to facilitate the transition to the restraint level. In addition to the restraints fixed on deliveries under the programme there was also a "reference" level fixed for sales directly to customers; a quantity totalling 4.2 million tons. In terms of administration, the global reference level was shared out amongst member States. Member States had a choice as to how they, in turn, allocated their reference quantities. The allocation could be to individual producers (formula A) or to dairies (formula B). Milk deliveries over and above the established "quota" levels would be levied at a rate of 75 per cent under formula A and at 100 per cent under formula B. For the year 1985/86, the EC target price for milk was fixed at ECU 27.84 per 100 kg., delivered to dairy, on the basis of 3.7 per cent fat content. The intervention price for butter was reduced from ECU 319.7 per 100 kg. to 313.20 per 100 kg. The intervention price for skimmed milk powder was raised from ECU 165.88 per 100 kg. to ECU 174.04 per 100 kg. These intervention prices took account of an adjustment in the fat content/non-fat solid content ratio from 50/50 to 48/52. The co-responsibility levy was reduced to 2 per cent of the target price with effect from 1 April 1985, after having been increased to 3 per cent for the 1984/85 season. The measures taken in 1984/85 provoked both reduced yields per cow (through less intensive feeding) and reduced cow numbers. The December census of cattle number in the EC indicated that dairy cow number decreased by about 4.2 per cent. This led to a further decrease in milk production in 1985. Milk deliveries to dairies in 1985 were 1.7 per cent lower than last year. Milk production was 2.2 per cent lower than in 1984. The Commission of the European Communities announced price proposals for the 1986/87 season in February 1986. For milk, the target price could be unchanged, as could the co-responsibility levy (2 per cent); the intervention price for butter could be reduced by 4 per cent to ECU 300.67 per 100 kg. and that for skim milk powder could be raised by 3.5 per cent to ECU 180.09 per 100 kg. The new price relationship between fat and non-fat solids could be changed to 46.13:53.87. The proposal was that the super-levy should be collected twice a year when quotas were exceeded. It was estimated that cow milk production in Spain in 1985 at 6.5 million tons was about 1.5 per cent higher than in 1984. Both the cow numbers and productivity per cow had increased. The producer price for milk for the 1984/85 production year had been fixed at Pta 31.10 per litre and the target price at Pta 31.50 per litre. Milk production in Portugal, after having declined by 11 per cent in 1984, slightly recovered in 1985, when the level was 750 thousand tons. The reasons for some recovery were an increase in cow numbers and a fractional improvement in milk yields per cow. Both Spain and Portugal joined the EC in January 1986. The EC "restraint levels" of production or quotas were expected to be applied to them in 1987, as a result of which some reductions in milk production would become inevitable.
22. As a result of the Finnish two price system and certain other measures to contain milk production, total milk deliveries during 1985 were estimated at 2.90 billion litres, about 4 per cent less than in 1984. A further reduction of 2 per cent was projected for 1986. Under the new system adopted on 1 January 1985, annual production quotas were established based on actual production during 1981/82 or 1982/83 whichever being higher. However, in any event, any single producer could produce at least 30,000 litres annually. Additionally, no producer would have his quota affected by his participation in governmental programmes, which had existed since 1980, to reduce milk production. Also, producers might apply for larger quotas if they had invested in dairy production since 1 January 1979. In January 1986, the Government decided that additional quotas up to a total of 18 million litres could be granted. As regards prices, producers received the whole support price for "in-quota" milk while "surplus" milk would receive approximately the world price, or in other words, about FIM 1.60 per litre less than the support price. As regards other programmes, it should be noted that in 1984 no licences to produce milk were granted (producers with herds exceeding eight cows would require a licence). In 1985, producers possessing up to thirty cows would be granted licences provided they produced at least two thirds of their own fodder. In addition, the voluntary production reduction system had been extended. Any producer who reduced his production by 15 per cent or by 5,000 litres would receive FIM 0.90 per litre of reduced production. On 1 March 1985, the milk support price was fixed at FIM 228.60 per 100 litres. Presently, the deficiency payments were fixed at FIM 23.50 per 100 litres on production up to 30,000 litres per farm and FIM 12.00/100 litres thereafter up to 150,000 litres of annual production per farm. A production subsidy was paid for milk production in the less favoured areas of the country. This ranged between zero and FIM 63.00/100 litres. Similarly, regional price supports and subsidies on transport of milk were given.

23. Milk production in Norway at 1.97 million tons had declined by some 32 million litres in 1985 as a result of measures taken to curb production. A further reduction of 1.2 per cent was anticipated for 1986. The two-price system for milk introduced in 1983 was particularly important. Under this scheme, the price received by a farmer for milk produced in excess of the quota established on the basis of a three-year average of his deliveries, was well below the average return for "in-quota" milk. In 1983 the average return for "in-quota" milk was 231 øre per litre while "over-quota" price for milk was set at 60 øre per litre. In 1985, the two-price system was changed in such a way that producers' quotas were fixed, taking into account historical production. On 1 July 1984, the quantity limited support price for milk was fixed at 158 øre per litre for deliveries up to 20,000 litres. For the subsequent 10,000 litres the price was fixed at 68 øre per litre. Since 1982, a premium had been paid for the slaughter of calves.

24. In Sweden milk deliveries to dairies which had increased by 2.1 per cent in 1984 to a level of 3.7 million tons, declined by 3 per cent in 1985 to a level of 3.6 million tons. Dairy cow numbers had been relatively stable since 1981 and were expected to remain so in the near future. The increase had occurred despite the fact that measures were introduced in 1983 to deal with over-production of milk. "Non-production" grants were being paid to farmers aged sixty to
sixty-five years to encourage them to leave dairying (in the amount of 0.50 öre per kg. of milk, the farmer must produce less than 100 tons of milk annually; the maximum subsidy was therefore limited to SEK 50,000 per farmer). In addition, the slaughter of heifers had been subsidized and there had been limitations placed on State credit for farm investment. As from 1 January 1985, the "middle" or target prices for butter, cheese and skimmed milk powder were set at, respectively, SEK 17.67 per kg., 23.56 per kg. and 12.66 per kg. In addition, special support was granted to small farmers and to farmers in Northern Sweden. A two-price system for milk had been applied on a trial basis since 1 July 1985. Participation by farmers in the system was voluntary. Those who chose to participate in the system would receive full home market price for a quota corresponding to 92 per cent of the largest annual delivery in the 1981 to 1983 period. For deliveries in excess of the quota they would receive a price based on actual export returns. Farmers not participating in the two-price system would receive a price corresponding to the home market price reduced by a levy calculated on the basis of the difference between the home market price and the export price and also taking into account the total quantity of milk delivered by producers not participating in the two-price system.

25. Milk production in Austria totalled 3.77 million tons in 1984; in 1985 it was 0.8 per cent lower at a level of 3.74 million tons and in 1986 it was projected to decrease further by 0.5 per cent. Dairy cow numbers were reported to be dwindling along with milk yields per cow. On 1 January 1984, the producer price for milk was fixed at $ 4.66 per kg. for milk of first quality with a fat content of 3.8 per cent. Levies were assessed on production on a two-tiered basis: a "base" levy per kg. of "in quota" milk and an additional levy for "over-quota" milk. In order to curb milk production, the government bought out quotas from producers who agreed to give up or reduce milk output. The effective price to milk producers was also reduced with effect from December 1985.

26. In Switzerland, milk production increased by 1.9 per cent in 1984 relative to the preceding year. As a result of this over-production producers marketed a significantly greater number of cows. Because of the reduction in the dairy herd and government measures to curb production, milk production in 1985 was below that of 1984. Milk deliveries in 1985 were 3.2 per cent lower than in the previous year, and were at the same level as in 1983. Forecasts for 1986 were that deliveries would remain unchanged at the 1985 level. Certain modifications in the dairy quota system and other measures had been adopted to effectively control surplus production and to impose higher penalties on those who exceeded given quotas.

27. Milk production in the United States which decreased in 1984 by 3.2 per cent to a level of 61.4 million tons as a result of the adoption of the diversion programme and higher feed costs, bounced back in 1985 to nearly 65.0 million tons or by more than 5 per cent. A further increase by 3.5 per cent to 67.0 million tons was predicted for 1986. The "milk diversion programme" which operated from January 1984 to March 1985, was instrumental in reducing significantly the milk output and surpluses of dairy products in the United States. From the second quarter of 1985, however, output began to exceed year-earlier levels with growth rates up to 10 per cent towards the end of the year. Dairy farmers raised their
production levels to offset losses from reduced US price supports, which were trimmed by 8 per cent or $1.50 a hundred pounds to $11.60. Both dairy cow numbers and yields increased as a result of the termination of the "milk diversion programme". As grain prices fell, farmers took advantage of lower feed costs to give cows more meals that tended to boost production. Dairy herds increased by 360 thousand head to 11.2 million by mid-1984. Milk output, which in July 1984 had fallen nearly by 5 per cent, had soared 11 per cent by September 1985 exceeding the level of year before. Thus, for 1985 as a whole, with milk yields and production exceeding the previous record levels in 1983 and with demand increasing relatively slowly, purchases by the Commodity Credit Corporation were larger than during 1984. Total removals of surplus dairy products from the market under the price support programme were expected to be 6.1 million tons. Most of the surplus was expected to be disposed of under domestic and external donation schemes. Commercial exports could also increase further, although these would require substantial subsidies. The new US Farm Bill, signed on 23 December 1985, for a period of 5 years, essentially retained the existing milk support prices for 1986 ($11.60 per 100 lbs milk). With effect from 1 January 1987, however, these support prices would be periodically reduced. An 18 month farmer funded programme was also created under which producers could voluntarily agree to take their entire herd out of production. It was expected that as a result of the scheme, milk production would be reduced by 5.4 to 5.9 million tons. Under the Dairy Export Incentive Programme, valid for the period 21 February 1986-30 September 1989, the CCC would make payments either in cash or CCC owned dairy products, on a bid basis to entities that sold for export US dairy products. Sales under the programme would be additional and not displace commercial export sales by the contracting parties or other exporters. Under the Farm Bill, the US Government was to purchase 400 million pounds of red meat for export and military use and for domestic required donations, to minimize the impact on the livestock market of increased marketing of dairy cows due to the buyout.

28. Following a 9 per cent increase in New Zealand milk production in 1984, output dropped by more than 2 per cent to a level of 7.26 million tons in 1985. The decrease was linked with reduced production per cow since cow numbers increased. In New Zealand, which was the world's second largest exporter of milk products, dairy cow numbers had increased because the profitability of other sectors of the livestock industry, especially sheep farming, appeared to have decreased even more than that of dairying. As a result, some shift in grassland use from sheep to cattle production had taken place. In 1986, milk output was projected to increase nearly by 3 per cent to a level of 7.5 million tons due to favourable pasture conditions and increased cow numbers. For the 1984/85 season commencing 1 June 1984 the basic price for milk fat was set at $NZ 2.50 per kg., and for solids non-fat at $NZ 1.05 per kg., giving a combined basic price of $NZ 3.55 per kg. milk fat equivalent. At the end of 1985, a farm assistance programme was being considered aiming at reducing cost to producers, facilitating the agricultural adjustment process and assisting the agricultural industry in becoming more efficient and to make its financial decisions on the basis of market returns.

29. Milk production in Australia in 1985 was 6.25 million tons or more than 2 per cent higher than in 1984 due to favourable pasture conditions. It increased by another 2 per cent in 1985 to reach the
level of 6.40 million tons. Though cow numbers had decreased, milk yields had substantially increased, thus resulting into increased output.

30. Japanese production of milk at 7.14 million tons in 1984 was almost the same as in 1983, but increased by nearly 3 per cent in 1985 to a level of 7.35 million tons. Forecasts for 1986 showed a further increase by 2.4 per cent to a level of 7.53 million tons. Under the production restraint programme the number of dairy farms in Japan had progressively decreased, but the number of dairy cows and milk yields per cow had increased steadily to give an overall increase in milk production. The guaranteed minimum price of raw milk, fixed at 90.1 yen/kg. in 1976, had remained more or less unchanged. With producers benefiting from declining concentrate feed prices the support price of manufacturing milk had been frozen for 1985/86. However, the quota which limited the quantity of milk eligible for the support, had been increased.

31. Milk production in South Africa in 1984 was estimated to be 1.8 million tons, a shade lower than in 1983. Due to cash flow and credit problems of farmers, milk production in 1985 remained unabated. Temporary quotas on industrial milk, with the accompanying levy for over-production were introduced for a short period in the beginning of 1985, but were subsequently suspended. The guaranteed support price of industrial milk was set at R 33.09 per 100 kg. (3.8 per cent butterfat and 3.3 per cent protein). Prices for butterfat and protein were R 4.66 per kg. The guaranteed or support price for fresh liquid milk was fixed at R 35.25 per 100 litres (October 1984 to September 1985).

32. Milk production in Canada in 1984 increased by about 11 per cent to 8.26 million tons. Industrial milk production in Canada was controlled by the Federal Government, while that of fresh (or table) milk was controlled by each province. The national quota for industrial milk was again fixed at 47.6 million hectolitres for the 1984/85 productive year (August-July), the level which had existed in 1983/84. On 1 August 1985, the "target return" for industrial milk and cream was raised by C$1.03 to C$46.85 per hectolitre. Considerable declines in feed prices were offsetting the rise in the consumer price index, both elements in the price formula and no revision was expected in the target return for milk for manufacture during 1985/86. Milk production in 1985 calendar year was less than in the previous year, despite a decline of 5 to 6 per cent in milk/feed price ratio in the course of the current year. The slowdown in production was linked with adjustments to the Canadian dairy programme.

33. In spite of a drought in the USSR in 1984, milk production increased by about 1 per cent relative to 1983, reaching 97.6 million tons. In 1985, milk output was again up by 2 per cent to touch the level of 99.5 million tons as growth in milk yields outmatched a reduction in cow herd. Culling of cows over the past two years had resulted into a substantial reduction in herds. A further increase of 1.5 per cent in milk output was projected for 1986 as feed supplies increased and yields continued to improve.
34. In Poland, milk production in 1985 was about 4 per cent low at a level of 11 billion litres, as compared to the level in 1984, despite the favourable pasture and forage conditions. Cow numbers were decreasing as lower milk prices were causing reduced private farm interest in dairying. Cow numbers and milk production were likely to continue their downward drift in 1986.

35. Production in Hungary at about 2.8 million tons in 1984 was more or less at the same level as in 1983. In 1985, production was reported to have dipped to 2.7 million tons. While production per cow was increasing, cow numbers were decreasing. Dairy cow numbers totalled 729 thousand head on 1 January 1985, 1 per cent less than year earlier. The guaranteed prices paid to producers for milk were not only differentiated in terms of quality but also by size of producer. Thus while the prices of first and second class milk from 1 January to 30 April 1984 for "large" producers were Ft 7.25 and Ft 7.15 per litre respectively, they were Ft 7.15 and Ft 6.95 respectively for "small" producers. In addition, premiums or discounts from these prices were adjusted for butterfat content above or below, respectively, 3.6 per cent at a rate of Ft 1.10 per kg. For the period 1 May to 30 November 1984, all producer prices were reduced. The average reduction was about Ft 0.60 per litre. Special aids were accorded to "small" producers.

36. Elsewhere in Eastern Europe, milk production was favourably influenced by good weather conditions. In Bulgaria, production at 2.2 million tons in 1985 was about 4 per cent higher than in 1984; while in Romania milk production, after having increased in 1984, decreased in 1985 by nearly 7 per cent due entirely to a noticeable reduction in milk yield per cow. Yugoslavia's milk output regained its upward momentum in 1985 after suffering a slight set back in 1984. In Democratic Republic of Germany, milk production rose by another 0.5 per cent in 1985 to a level of 8.8 million tons.

37. The developing countries, with about three-quarters of world population, account for less than one quarter of the world's milk production. Asia is by far the largest producer in the developing regions and has recently also experienced the fastest growth in milk output due to a continuous rise in demand. India's milk output continued to increase on year-to-year basis due to dairy development programmes and better management systems, along with improved breeding practices applied in the past 15 years. In 1985, cow milk production at 16.9 million tons was 2.5 per cent more than in 1984. Buffalo milk production of 21.3 million tons and goat milk output at 975 thousand tons, together with cow milk, gave a total milk output of 39.26 million tons in 1985. In China, total milk production was only 4.7 million tons in 1985, but was showing signs of steadily increasing as dairy cow numbers were increasing. Profitability of dairying for individual households had encouraged more dairy cows being kept by individuals. This trend was expected to continue and national plans called for substantial growth in milk output over the next 15 years as a result of the increased attention being given to the nutritional value of milk. Trends of milk production in other Asian countries were nearly the same.

38. Cow milk production in Egypt totalled about 660 thousand tons in 1985, a shade higher than year earlier. Buffalo milk production also increased by about 2 per cent to 1.35 million tons in 1985. Sheep and goat milk production was negligible.
39. In Argentina, milk production at 4.98 million tons in 1984 was almost 2 per cent below the level of 1983. It recovered in 1985 when the level was 5.4 million tons. Brazilian output of milk at 10.5 million tons in 1984 increased to 11.0 million tons in 1985 or by almost 5 per cent. Milk production in Uruguay was also fractionally higher in 1985 compared to 1984, but the level was still below that of 1983. Milk production in Chile, Colombia, Ecuador, Peru and Venezuela also showed some increases in 1985 relative to 1984.

Consumption

40. In the developed countries, especially in North America, Western Europe and Oceania, the demand for milk and milk products had been persistently stagnating since the 1960's due to considerations of health and the availability of substitute beverages. Demand for animal feed purposes had also become uneconomic due to the availability of cheaper concentrated feeds. In countries, where milk consumption had registered some increases, the reason was the existence of retail price subsidization or welfare programmes to encourage milk consumption among certain sections of population or regions. In the developing countries, on the other hand, the demand was strong, owing to the rises in population and income levels, accompanied by urbanization and the associated change in food consumption habits. Although the current levels of per caput intake were still very low, they were steadily increasing.

41. The following countries had experienced a decline in the consumption of whole milk (the percentage decline in 1984 compared to 1983 is shown in brackets): United Kingdom (-0.5); Denmark (-9.7); Netherlands (-0.1); Finland (-1.3); Norway (-1.0); Sweden (0.4); Switzerland (-1.4) and Japan (-17.0). Consumption increased in New Zealand (+1.0), the United States (+0.8), Canada (+0.1), Ireland (+0.4) and in the Federal Republic of Germany (+0.4). It remained more or less unchanged in Australia, Belgium and Portugal.

42. The consumption of low fat milk which for some time had followed an upward trend in a number of countries, especially in developed high income countries, did not continue its trend in 1984. In the EC member countries human consumption remained static at 240 thousand tons in 1984, but there was an increase of 15 per cent in the use for animal feed purpose from 1.7 million tons in 1983 to 1.9 million tons in 1984. The United States showed a significant drop in low fat milk consumption for human purposes from 329 thousand tons in 1983 to 269 thousand tons in 1984, although there was a 7 per cent increase in consumption for animal feed purposes. There was also a drop in milk for human consumption in Japan (-2.0 per cent); Norway (-2.5 per cent); Poland (-3.0 per cent); Sweden (-10.0 per cent) and in Uruguay (-75.0 per cent). Consumption for animal feed purposes increased in Bulgaria (+14 per cent); Poland (+17 per cent) and in Sweden (+16 per cent). Major exceptions to the fall in human consumption of low fat milk were Australia, Canada and New Zealand where consumption increased in 1984, by 125, 65 and 1 per cent respectively.
Fresh Milk Products

43. The production of fresh milk products continued to expand in 1985. This reflected an apparent further growth in demand and consumption for such products. Only small quantities were stored, mainly what might be necessary to ensure a regular distribution to retailers.

44. For 1985, output of fresh milk products (other than whole and skimmed milk) in the European Communities reached 9 million tons in terms of milk equivalent, implying an increase of between 1 and 2 per cent compared to 1984. Production of cream by dairies continued its upward trend approaching a level of 800 thousand tons, or 6 million tons in terms of milk equivalent. An upward trend was also confirmed for yoghurt, flavoured milk, fermented milk and related products, the aggregate production of which exceeded 3 million tons in terms of milk equivalent in 1985.

45. Production and consumption of cream in the Nordic countries and Hungary had shown an appreciable increase in 1984, and preliminary information for 1985 indicated that the trends were confirmed. Similar developments were reported for Austria and Canada. As to other fresh milk products, the picture was a more variable one. In some countries, such as Finland, Sweden and Switzerland, production and consumption of yoghurt, buttermilk and fermented milk continued to grow at modest rates, while there was a decline in the case of Norway. In Japan, the record level of sales of flavoured milk of 688 thousand tons reached in 1984 was not repeated in 1985.

46. Total world trade in fresh milk products (including fresh milk) might have reached 250 thousand tons in terms of milk equivalent in 1985 with a value of around 75 million US dollars. For comparison, it might be mentioned that intra-Community trade in fresh milk and products amounted to more than 2.5 million tons or ten times world trade in 1984. Imports into Spain, mainly covered by supplies from the Community, have increased rapidly over recent years (1982: 18 thousand tons, 1983: 42 thousand tons and 1984: 90 thousand tons). With Spain having joined the Community on 1 January 1986, total world trade in fresh milk and products could diminish by roughly 100 thousand tons or 40 per cent from 1985 to 1986.

47. Both for Australia and New Zealand exports of fresh milk and products remained steady over recent years, around 10 to 12 thousand tons in both cases, but efforts were made to develop demand for a variety of fresh dairy products which could hopefully produce results in the near future. In New Zealand there was a sharp increase of more than 60 per cent from 1983 to 1984, in the production of fresh milk products, including ice-cream, yoghurt and cottage cheese. Efforts were made to develop demand for ultra high frequency treated (UHT) milk products. In 1984, New Zealand sales of flavoured milk expanded well in the Caribbean, Western Samoa and Guam. However, the exclusion of New Zealand products from the New Caledonian market more than outweighed the progress achieved elsewhere. Late in 1984, New Zealand introduced a one litre pack of UHT cream which had been successfully marketed in the Caribbean, the Pacific, South East Asia and the Middle East. Efforts
had been made to develop the flavoured milk sector, and a new product Fruyo - a combination of yoghurt and fruit juice - was introduced to the domestic market early in 1985 and plans had been made for export sales of the product. Other dairy exporting countries were also active in developing recombining industries in developing countries, notably the Middle East. The purpose was to create new markets for anhydrous milk fat and milk powder to be used for the manufacture of yoghurt and flavoured milk.

Skimmed Milk Powder

Production

48. Total world production of skimmed milk powder in 1985 (4.2 million tons) was 1 per cent lower than in 1984, when it had decreased by 7 per cent. In the EC, production fell by about 11 per cent in the first three quarters of 1985 to the level of 1.5 million tons. For the year as a whole, it was estimated to have been down by about 6 per cent from the 1984 level. The decline in 1984 and 1985 was due mainly to the introduction of the milk quota system. In New Zealand, production in the first three quarters of 1985 amounted to 109 thousand tons, a decrease of 18.7 per cent in relation to the corresponding period of 1984. For the year 1985 as a whole, output was down from the 1984 level. In Australia, production in the first three quarters of 1985 showed an increase of 1 per cent, reaching 76 thousand tons. Production of skimmed milk powder by other participants followed varying trends in the first nine months of 1985; for the year as a whole, output appeared to have increased in Poland and Japan, and declined in Finland, Hungary, Sweden and Switzerland.

49. In the United States, output increased by 14.5 per cent in the first nine months of 1985, reaching 488 thousand tons. For 1985 as a whole, the increase could be 21.6 per cent in relation to 1984, with a production level of 640 thousand tons. In Canada, production in the first nine months of 1985 totalled 82.9 thousand tons, a decrease of 21.7 per cent in relation to the corresponding period of 1984. Output in calendar year 1985 was below the 1984 level. Production in the USSR continued to increase in 1985 and reached 480 thousand tons as compared to 440 thousand tons in 1984.

50. World production of skimmed milk powder was expected to increase by 1 per cent in 1986 as a result of expanded production in the United States and the USSR. In the United States, production might amount to 750 thousand tons in 1986, an increase by 17 per cent in relation to 1985. In the USSR, production could reach some 520 thousand tons in 1986. On the other hand, output was expected to decline in the EC, Canada, and Oceania. In the EC, production was expected to amount to 1,826 thousand tons in 1986. In New Zealand, production in the 1985/86 season would be around 170 thousand tons compared to 205 thousand tons in 1984/85. In Australia, production of skimmed milk powder was forecast to reach 140 thousand tons in 1985/86, a 0.7 per cent decrease compared with 1984/85 output.
Trade

51. World exports of skimmed milk powder (including food aid) increased in 1985, due mainly to the pronounced rise in foreign donations by the United States. Total exports by the EC (including food aid), after having decreased for three consecutive years in 1981, 1982 and 1983, increased in 1984 by some 62 per cent, reaching 312 thousand tons of which 167 thousand tons was delivered as food aid. In the first three quarters of 1985 total exports increased by 22 per cent, totalling 210 thousand tons of which 92 thousand tons delivered as food aid. Exports by New Zealand increased by 6.6 per cent in the first nine months of 1985. As in 1984, the main destinations of New Zealand exports in 1985 were countries in South East and Eastern Asia. Exports from Australia increased by 44.3 per cent in the first nine months of 1985 to the level of 68.4 thousand tons, and would for the year as a whole register a substantial increase. Exports from Poland increased by 3.5 per cent in the first three quarters of 1985 to reach 32.4 thousand tons; the main destinations were Japan, Bangladesh and Algeria. In April and May 1985, Poland sold to Japan, in accordance with Article 3, paragraph 5 of the Protocol, 3,232 tons of skimmed milk powder for animal feed at prices between US$590 and US$595 per metric ton franco Polish border, i.e. at prices slightly below the minimum price of US$600 per metric ton f.o.b. In March and April 1985 Switzerland had sold to Spain, in accordance with Article 3, paragraph 5 of the Protocol, some 900 tons of skimmed milk powder for animal feed purposes at prices ranging between US$537 and US$550 per ton f.o.b.

52. Exports by the United States rose in the first three quarters of 1985 by 8.1 per cent in relation to the corresponding period of 1984 to a level of 226 thousand tons. Exports of skimmed milk powder totalled 285 thousand tons in 1985 of which about three quarters as food aid, as against 264 thousand tons in 1984 of which some 180 thousand tons was food aid. The principal destinations of these exports were countries in Africa, South and Central America. In the second quarter of 1985, the United States sold to Spain some 25 thousand tons of skimmed milk powder for animal feed purposes, at a total value of US$7.5 million. Exports from Canada continued to decrease in 1985; reaching 45.6 thousand tons in the first three quarters of 1985, a decrease by 20 per cent in relation to the corresponding period of 1984. The principal destinations of Canadian exports in 1985 were countries in South and Central America.

53. On the import side, it should be noted that purchases by Japan declined by 3.2 per cent in 1984 to 90 thousand tons. Much of the powder imported - 70 thousand tons - was for use as animal feed. Imports recovered in 1985 and showed a rise of 19.1 per cent in the first three quarters. The principal origins of supplies in 1985 were New Zealand and Australia. Spain increased its imports substantially in 1985. Imports into Mexico continued to increase, reaching some 150 thousand tons of skimmed milk powder in 1985, as against 100 thousand tons in 1984, the principal supplier being the United States.

54. Total exports by the United States could reach 325 thousand tons in 1986. Exports by Australia in 1985/86 could decline in relation to 1984/85; while those from Canada in 1985/86 could remain unchanged as
compared to 1984/85. Total world exports of skimmed milk powder were expected to decline in 1986, notably as the increase in United States exports would be outweighed by lower supplies from the Community and New Zealand.

Food aid

55. Food aid deliveries of dairy products, consisting mainly of skimmed milk powder and anhydrous milk fat, increased in 1984 from the countries listed in Table 5. As regards skimmed milk powder, foreign donations by the United States amounted to 180,533 tons in 1984 as against 113,211 tons in 1983, the main destinations being Egypt, Brazil and Guatemala. During the first ten months of 1985, foreign donations amounted to about 176 thousand tons, out of total exports of 250 thousand tons. These figures do not include skimmed milk powder exported as a component of a mixture of corn, soya and skimmed milk powder. Foreign donations were up sharply in 1985 and were expected to continue at high levels in 1986. The Community food-aid programme for the year 1984 provided for delivery of 122.5 thousand tons of skimmed milk powder, as against 150 thousand tons in 1983. Food-aid deliveries by the EC amounted to 167 thousand tons in 1984, against 73 thousand tons in 1983. In order to make up arrears, Community deliveries of skimmed milk powder and butteroil were greater in 1984 than in 1983. The main beneficiaries under the 1984 programme were India with 27 thousand tons, Egypt with 6,750 tons and the World Food Programme, 28 thousand tons. The 1985 food-aid programme of the Community provided for a maximum of 108.6 thousand tons of skimmed milk powder. The Community had drawn up a list of countries and organizations eligible for food-aid operations but a break-down of the above-mentioned quantity of skimmed milk powder by recipient countries and international organizations was not available. In the three first quarters of 1985, EC food-aid deliveries of skimmed milk powder totalled 92 thousand tons, as against 124 thousand tons in the corresponding period of 1984. The 1986 food-aid programme of the Community provided for a maximum of 94 thousand tons of skimmed milk powder. Food-aid deliveries of milk powder had also been made by Australia, Austria, Canada, Finland, Japan and Switzerland. China, which had not traditionally been a large milk producer and consumer, was now attaching greater importance to dairy development and might be using food aid in the form of skimmed milk powder and anhydrous milk fat as a major element in its dairy development programme.
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*Food aid for Canada is fiscal year, while total export figures relate to calendar year.*

**Note:** Foreign donations of butter oil and butter by the United States between January and September 1984 under Section 416 totalled some 44,000 tons (butter equivalent). In addition, butter shipments under PL 480, Title II, over the same nine-month period were about 1,800 tons.
Consumption

56. World consumption of skimmed milk powder decreased in 1985. In the EC total internal consumption had declined to the level of 1,376 thousand tons in the first nine months of 1985, a decrease by 12.2 per cent in relation to the corresponding period of 1984. Human consumption was estimated to have risen to 335 thousand tons, i.e. 49 thousand tons more than in the corresponding period of 1984. Consumption for animal feed - the major outlet for skimmed milk powder in the Community - decreased by about 231 thousand tons in the period considered, reaching 1.04 million tons. In the United States, total consumption of skimmed milk powder increased by some 42 thousand tons in 1985, to the level of 346 thousand tons. In Japan, domestic consumption totalled 191 thousand tons in the first nine months of 1985, i.e. 1,000 tons less than in the corresponding period of 1984; 136 thousand tons was used for human consumption. In Finland and Hungary most of the skimmed milk powder consumed in the first three quarters of 1985 was used for animal feed.

57. In Western Europe, where skimmed milk powder was used mainly for animal feed, measures were applied to promote its consumption. EC direct aid for the use of skimmed milk powder in feeding calves was at the rate of ECU 80 per 100 kgs., or 46 per cent of the intervention price of this product. In addition, subsidies were granted on liquid skimmed milk, either to promote its use in the animal feed sector or for processing into casein. Furthermore, special measures could be taken in the "pig-and-poultry" compound feed sector if the stock situation so required. Thus, 600 thousand tons were sold at greatly reduced prices in 1984 for pig and poultry feed. The "pig-and-poultry" scheme was discontinued in April 1985 because the stocks had come down to their lowest level of about 350 thousand tons. Due to the subsequent rise in the stocks the EC would have to reintroduce this scheme. In July 1984 the Council decided to extend the aid régime in respect of skimmed milk powder for calves to include partly skimmed milk powder (9 to 11 per cent fat), which would provide an additional outlet. Other countries too, in particular Austria, Finland and Switzerland launched promotion drives for the use of skimmed milk powder or liquid skimmed milk as animal feed. The United States was planning to increase sales of skimmed milk powder for animal feed. A number of programmes had been set up to increase use of dairy products in the United States. National donations of skimmed milk powder reached a level of 70 thousand tons in 1984, an increase of 30 thousand tons compared with 1983.

Stocks

58. Total stocks of skimmed milk powder in the EC, North America and Oceania of approximately 1 million tons at 1 October 1985 down by one third from one year earlier. Total stocks of skimmed milk powder held by other countries showed divergent trends between 1 October 1984 and 1 October 1985. At the end of 1985, the level of world stocks of skimmed milk powder was lower than at the end of 1984. The reduction of stocks recorded at the end of 1985 was primarily accounted for by reduction in public stocks in the EC and the United States.

59. Public stocks in the EC totalled 478 thousand tons on 1 October 1985, as compared to 873 thousand tons on 1 October 1984. Subsequently, they increased and at 12 December 1985, were at the level of 524 thousand tons. Thus, as indicated in the section regarding consumption,
the EC would reintroduce special disposal measures in the "pig-and-poultry" compound feed sector in order to reduce stocks. On 1 October 1985, United States stocks amounted to 485 thousand tons, down by 20 per cent in relation to one year earlier. Stocks at the end of 1985 were estimated to be below their level one year earlier, totalling 504 thousand tons. For 1986, increasing milk output was expected to result in higher stocks which were expected to increase to a level of 590 thousand tons by the end of the year. On 1 October 1985, stocks of skimmed milk powder in Australia, New Zealand and Canada were below their levels one year earlier.

International prices (Table 2 and Graph 1)

60. Since 1 October 1981, the minimum export price of skimmed milk powder had been US$600 per metric ton f.o.b. During the first quarter of 1985, prices of skimmed milk powder were within a range of US$600 to US$650 per ton f.o.b. During the second quarter of 1985, they had stabilized at around US$630 to US$700 per ton f.o.b. In the first half of 1985, the prices at the lower end of the bracket were those of skimmed milk powder for animal feed. During the third quarter of 1985, prices of skimmed milk powder for human consumption were within the range of US$685 to US$800 per ton f.o.b. The depreciation of the United States dollar vis-à-vis other currencies and the lower level of production had contributed to the strengthening of prices. During the fourth quarter of 1985, prices fluctuated between US$750 and US$800 per ton f.o.b. Prices of skimmed milk powder could become somewhat firmer in the coming months.

Whole Milk Powder

Production

61. Aggregate output of whole milk powder, which was closely related to demand, continued to increase in 1985 but at a slower rate than in 1984. In the EC, the world's leading producer, output in the first three quarters of 1985 reached 560 thousand tons, 1.3 per cent more than in the corresponding period of 1984. In New Zealand, production rose by 2 per cent in the first three quarters of 1985. For the 1985/86 season, production for export was expected to show a slight increase. In Australia, output increased by 16.7 per cent in the period considered, and for the 1985/86 season was expected to be 12 per cent higher than in the preceding season, totalling some 50 thousand tons. In Finland, production increased by 3.8 per cent in the first nine months of 1985, while it declined in Switzerland.


Trade

63. Total exports of whole milk powder by the main exporter participants declined slightly in the first three quarters of 1985 in relation to the corresponding period of 1984. The EC, remained the
leading exporter of whole milk powder, exporting 359 thousand tons in
the first three quarters of 1985, i.e. 3.8 per cent less than in the
corresponding period of 1984. Exports from New Zealand, the world's
second largest exporter, increased by 7.8 per cent in the first three
quarters of 1985. Exports from Australia increased by 22.7 per cent in
the first nine months of 1985. Exports in the 1985/86 season were
expected to show an increase in relation to 1984/85, to around 38,000
tons as against 36,200 tons in 1984/85. Exports from Finland, which
went almost exclusively to the USSR, amounted to 22 thousand tons in the
first three quarters of 1985, the same as in the corresponding period of
1984.

64. The United States exported some 24,400 tons of whole milk powder in
the first three quarters of 1985, almost exclusively to Spain, while
exports for the calendar year 1984 had amounted only to 6,100 tons.

Stocks

65. Throughout the first three quarters of 1985 total whole milk powder
stocks were significantly reduced. This was mainly due to a strong
reduction in New Zealand stocks.

International prices (Table 2 and Graph 2)

66. At a special meeting held on 31 May 1985, the Committee of the
Protocol Regarding Certain Milk Powders decided to reduce the minimum
price of whole milk powder from US$950 to US$830 per metric ton f.o.b.
This decision took effect on 5 June 1985. International prices of whole
milk powder had weakened in 1984, a trend that continued into early
1985, with prices between US$850 and US$960 per ton f.o.b. in the first
half of the year. The decline was mainly due to the appreciation of the
United States dollar. It should be noted that prices at the lower end
of the bracket were very close to the new minimum price of US$830 per
ton f.o.b. and were giving rise to concern. However, the market
improved later in the year with prices in the range of US$890-US$1,010
per ton f.o.b. in the third quarter and US$950-US$1,000 per ton f.o.b.
in the fourth quarter.

Buttermilk Powder

67. In New Zealand, output of buttermilk powder decreased in the first
three quarters of 1985, while exports were increasing. In Australia,
production and exports of buttermilk powder increased in the first three
quarters of 1985. In January 1985, New Zealand notified its intention
of selling to Spain 3,000 tons of buttermilk powder for animal feed at
less than the minimum price under Article 3:5 of the Protocol. In
Sweden and Switzerland the small quantities of buttermilk powder
produced were used for domestic consumption and these participants
neither exported nor imported buttermilk powder in the first nine months
of 1985. EC production of buttermilk powder amounted to 48 thousand
tons in 1983, but had reportedly declined to 40 thousand tons in 1984.

68. Since 1 October 1981 the minimum price of buttermilk powder had
been US$600 per metric ton f.o.b., i.e. the same as the minimum price
for skimmed milk powder.
Butter

Production

69. World butter output, including ghee, for 1985 showed an overall decline of about 1 per cent to a level of 7.6 million tons. In the EC, butter output in the first nine months of 1985 amounted to 1.5 million tons, around 8 per cent less than in the corresponding period of 1984. For the year 1985 as a whole, total butter and butteroil production was estimated to have been 6.5 per cent below the 1984 level. Thus, in the two years together, butter output declined by a net 315 thousand tons, due mainly to production restraints on milk. In New Zealand, production decreased by 6.5 per cent in the first three quarters of 1985, totalling 145 thousand tons, and output in calendar year 1985 would be below the 1984 level. In Australia, butter production in the first nine months of 1985 was 11 per cent lower than in the corresponding period of 1984. In Poland, butter production in the first three quarters of 1985 was 5 per cent lower than in the corresponding period of 1984; for the whole year, production might have declined by 2 to 3 per cent in relation to 1984. In Finland butter production in the first nine months of 1985 was 9.2 per cent lower than in the corresponding period of 1984. For the year 1985 as a whole, production might reach 73 thousand tons, a decline of 9 per cent compared to 1984. Regarding butter output in other participating countries, trends varied in 1985.

70. In Canada, output totalled 74 thousand tons in the first nine months of 1985, a decrease of 12 per cent in relation to the corresponding period of 1984. For the year 1985 as a whole, Canadian production was expected to decline by 9 per cent to 97.6 thousand tons compared with 107.7 thousand tons in 1984. In the United States where production had declined by 16 per cent in 1984 to 500 thousand tons, manufacture expanded in 1985 as a result of substantial increase in milk supplies; an increase by 7.7 per cent was recorded in the first three quarters of 1985 and for the year as a whole output might have expanded by 12 per cent reaching some 560 thousand tons. USSR production rose by 3 per cent reaching a level of 1.6 million tons in 1984, and it might have increased by another 1 per cent in 1985. The Democratic Republic of Germany recorded an increase from 291 thousand tons in 1983 to 309 thousand tons in 1984.

71. The outlook for 1986 was for butter output to remain near 1985 levels. In EC, butter production would continue to decline in 1986. In New Zealand, production of butter and anhydrous milk fat for the 1985/86 season was likely to be lower than the 1984/85 season, in line with the expected decline in milk production and the anticipated slight increase in the production of whole milk powder and cheese. In Australia production of butter was forecast to reach 86 thousand tons in 1985/86, a 5.4 per cent increase compared to 1984/85 output (81,576 tons) In Finland and Poland, butter production might decline in 1986.

72. The larger milk output expected for 1986 could result in expanded butter production in the United States, the USSR and India. In the United States butter production might reach 620 thousand tons in 1986, an increase by some 11 per cent in relation to 1985.
Trade

73. Exports of butter showed a marginal increase in 1984 compared to their level in 1983. The market situation in 1984 was characterized by a high level of stocks, weak demand and strong competition resulting in depressed prices. For the first three quarters of 1985, aggregate exports by the main participants showed an increase in relation to the corresponding period of 1984. Total world exports of butter appeared to have increased for the year 1985 as a whole. However, the outlook for 1986 was for a reduction in exports of butter and butter oil. The strong competition between the major exporters would continue because of the large supplies in hand.

74. EC exports of butter to third countries during 1984 amounted to 220 thousand tons. The main destinations of exports were Mediterranean countries, the USSR and OPEC countries. In the first three quarters of 1985, exports were 144 thousand tons, showing an increase by 14.3 per cent in relation to the corresponding period of 1984. In July 1984 the Commission of the European Communities announced a series of measures to facilitate the disposal of certain dairy products, particularly butter. Regulations were adopted concerning the special sale of intervention butter for export to certain destinations, and the sale at a fixed price of butter intended for export in the form of ghee. Those Regulations had allowed the sale of butter at reduced prices. Under Regulation No. 2268/84 the EC had sold 151 thousand tons of butter, including 130.5 thousand tons to the USSR. Sales under Regulation 2278/84 had totalled some 3,100 tons. Under Chapter II of Regulation 2956/84, 120 thousand tons of butter had been sold to the USSR, with deliveries completed by 30 June 1985. A total of 274 thousand tons sold under those Regulations comprised 250 thousand tons purchased by the USSR and 24 thousand tons by other countries. Regulation No. 2668/84 was concerned with the sale of intervention butter not less than six months old for export, particularly to the Middle East, Iran and the USSR; this Regulation was later suspended. Regulation No. 2278/84 under which sales of butter in the form of ghee were permissible only if it was seventeen months old, was also revoked; Chapter II of Regulation No. 2956/84 had already been revoked in December 1984.

75. Exports by New Zealand in 1984 at 153 thousand tons were about 4 per cent higher than in 1983, but still lower than their level in 1982. In the first three quarters of 1985 exports amounted to 130.6 thousand tons, an increase by 18.7 per cent in relation to the corresponding period of 1984. The United Kingdom remained the main outlet. It should be noted that under the preferential régime for butter imports from New Zealand, the United Kingdom had been authorized to import, 81,000 tons in 1985 and 79,000 tons in 1986. New Zealand also sold 15.5 thousand tons of butter to Algeria and 26.2 thousand tons to the USSR in 1985. Australian butter exports which had increased strongly in 1984 reaching 22.3 thousand tons continued to expand in 1985; in the first three quarters of the year, exports increased by 5.4 per cent to 21.3 thousand tons. The main destinations were North Africa, Iran and the USSR. Finland exported 22 thousand tons in 1984, i.e. 15 per cent less than in 1983; in the first three quarters of 1985, exports declined to 11 thousand tons compared to 15 thousand tons exported in the corresponding period of 1984. For the year as a whole, exports might have reached 17 to 18 thousand tons, with the USSR remaining the main outlet. For the first three quarters of 1985, exports by other participants showed varying trends.
76. The **United States** became an important exporter of butter in 1981 following a substantial increase in its butter stocks. In 1984 the level of exports had reached 44 thousand tons, marking an increase of 30 per cent over 1983, the main outlets being Poland, Egypt, Mexico and Jamaica. Towards the end of 1984, the United States signed an agreement with Egypt for the sale of 21,000 tons of butter, 15,000 tons of butter oil and 5,000 tons of processed cheese. In the first three quarters of 1985, exports of butter and anhydrous milk fat amounted to 32.5 thousand tons, the main destinations being Egypt and Mexico. Exports were expected to add up to 50 thousand tons in 1986. Exports of butter from the **Democratic Republic of Germany** amounted to 19 thousand tons in 1984 compared with 23 thousand tons in 1983.

77. On the import side, shipments of butter to the **EC** by third countries, which had declined in 1983, receded further in 1984 reaching 88.6 thousand tons, almost 9 per cent below 1983. New Zealand remained the main source of Community imports, and the reduction in its supplies accounted for about half of the reduction of Community imports in 1984. In the first three quarters of 1985, imports amounted to 43 thousand tons as compared to 68 thousand tons in the corresponding period of 1984. Imports into Switzerland were reduced by one third to a level of 8 thousand tons in 1984; they continued to decline in 1985 amounting to some 7 thousand tons.

78. USSR imports decreased to a level of 198 thousand tons or by 2 per cent in 1984, but might have increased to 200 thousand tons in 1985, reflecting variation in the domestic supply situation.

79. So far, no sales of old butter were reported to have been made under the Decision of 31 May 1985.

80. When reviewing the market situation for dairy products in September 1985, the Council found that the situation with respect to the butter market remained one of concern, as heavy surplus stocks continued to have a depressive effect on the market. It was stressed that close co-operation was absolutely necessary for solution of the current problems relating to production, trade, stocks and prices for butter and milk fat. The Committee of the Protocol Regarding Milk Fat was invited to consider possible steps to be taken to resolve problems facing butter trade. At its session in December 1985, the Committee underlined that the situation in the butter market remained difficult and that a spirit of co-operation and discipline among participants was more than ever necessary in order to resist pressures on prices.

**Consumption**

81. Total consumption of butter in the countries for which statistical information was available decreased in 1984 by nearly 9 per cent. However, there were indications that butter disappearance would slowly increase again in a number of countries as a result of measures adopted to promote its consumption.

82. In 1985, the **EC** continued its policy to encourage butter consumption with a view to reducing stocks. Special sales of cut-price butter within the Community such as sales to ice-cream and cake manufacturers and to non-profit-making institutions and bodies, were
continued and the year 1984/85 also saw special sales of "Christmas butter" and a reduced price butter scheme for Berlin (a pilot scheme designed to help ascertain the effectiveness of specific cut-price sales). Moreover, a campaign financed by funds from the co-responsibility levy was designed to expand consumption of dairy products. Community assistance to the milk distribution programme in schools was expanded and covered all the member States. Efforts were being made in the EC, in particular through sales at reduced prices, to make butter fat competitive with vegetable fats. The preference given to the latter apparently was due to either great differences of price in relation to butter or to certain consumer preferences. The Christmas butter scheme was not repeated for 1985/86 as the measure proved to be expensive and not effective in terms of increased butter sales. Instead, the Commission took additional measures on the sale at reduced prices of concentrated butter; various Community measures containing provisions to this effect had been adopted since 1972. The EC sold under special programmes 283 thousand tons in 1985 and was planning a sale of 330 thousand tons in 1986, including sales of concentrated butter for cooking purposes at half the normal price. For the first nine months of 1985 there was a decline in consumption of 3 per cent in relation to the corresponding period of 1984.

83. In Switzerland, where a number of measures fairly similar to those of the EC had been taken to promote butter consumption in the domestic market, the product was being sold at prices considerably below cost, mainly with the help of subsidies. Advertising campaigns were launched to promote butter consumption. In addition, charges were applied on imports of edible oils and fats in order to narrow the gap between the price of butter and other fats. Domestic consumption of butter slightly declined in 1984, and a further decline was expected in 1985.

84. In Finland, where consumption of dairy products, particularly butter, was high the consumer price of butter was subsidized. This subsidy was granted on all butter produced in dairies or on farms. The price of margarine was increased by consumption tax in order to maintain a constant ratio between butter and margarine prices, but the ratio was being modified in favour of butter. Consumption of butter declined in 1984, but remained stable in the first three quarters of 1985.

85. In Poland butter consumption continued to recover in 1984 and 1985. With the discontinuation of butter rationing, consumption was expected to increase.

86. In South Africa, consumption of butter continued to decline in the face of increased competition from margarine. Steps had been taken to foster butter consumption with the help of advertising programmes, and a special campaign was conducted during which the retail price of butter was subsidized from the Dairy Board's Stabilization Fund.

87. Until recently, butter prices in New Zealand were much lower than those of margarine. Following an increase in the retail price of butter, however, the two products were being sold at the same price. In calendar year 1984, consumption of butter decreased by 3.4 per cent in relation to 1983. Consumption had been assisted by a promotional campaign undertaken by the New Zealand Dairy Board and by the introduction of two new butter products. There was evidence that consumption of butter had slightly picked up in 1985.
88. In Australia, aggregate consumption of butter and anhydrous milk fat amounted to 70 thousand tons in 1984/85, as compared with 60 thousand tons in 1983/84. The Australian Dairy Corporation was endeavouring to promote consumption of these products within the context of a decrease in overall fat consumption in Australia. Domestic consumption of butter was expected to increase by 2.1 per cent compared to 1984/85.

89. In Austria, sales drives involving reduced butter prices were undertaken for social and economic reasons. Likewise, the army and hospitals could obtain butter at reduced prices throughout the year. Advertising campaigns to promote consumption, whether of butter or margarine, led to some increase in consumption during 1985.

90. In the United States, total consumption of butter increased in 1982 and 1983 after several years of decline. The reasons for that earlier decline included competition between butter and margarine and competition between the various types of margarine depending on fat content. In order to bring down surplus stocks, a number of butter distribution programmes were launched. Total domestic consumption in calendar year 1984 levelled off and estimates for calendar year 1985 showed a further decline.

91. In Canada, consumption of butter, which increased in 1983 by 7 per cent, plummeted again in 1984 by nearly 8 per cent to below the 1982 level. An advertising campaign for butter was launched in 1984, but simultaneously a publicity campaign was launched by margarine producers in favour of their product. In the first three quarters of 1985, however butter consumption remained stable.

Stocks

92. Total stocks of butter in the EC, North America and Oceania (approximately 1.5 million tons at 1 October 1985) were about 9 per cent smaller than one year earlier. Aggregate stocks of butter in the EC, public and private stocks of butter receded to a level of 1.2 million tons on 1 October 1985 as against an aggregate level of 1.25 million tons on 1 October 1984, showing a decline of about 3.3 per cent over the year. Public stocks on 12 December 1985 at 994.6 thousand tons, together with private stocks of 160 thousand tons gave a total of 1.15 million tons. Stocks at the end of 1985 were expected to be at least 150 thousand tons higher than at the end of 1984. Despite special Christmas sales and large export contracts with the USSR and other measures to reduce production and to increase exports, in particular, as food aid the high level of stocks remained a serious source of concern to the EC. New Zealand stocks increased from 62 thousand tons on 1 October 1984 to 91.6 thousand tons on 1 October 1985. Australian butter stocks at 22.7 thousand tons on 1 October 1985 were 29.5 per cent less than a year earlier.

93. In the United States, measures had been taken to curb production and to increase exports in the form of food aid. This led to a sharp reduction in stocks, which on 1 October 1985 stood at 136 thousand tons, a decrease by some 30 per cent compared with their level on 1 October 1984. However, they increased during the fourth quarter of 1985 and
were reportedly at 150 thousand tons on 1 January 1986 as against 134.5 thousand tons on 1 January 1985. They were likely to increase further in 1986 as milk production expanded. Canadian stocks at the end of September 1985 aggregated 27.5 thousand tons as against 34.3 thousand tons a year earlier; the year-end level 1985 was expected to be reduced to 23 thousand tons.

International prices (Tables 1 and 2 and Graph 4)

94. On 31 May 1985, the Committee of the Protocol Regarding Milk Fat decided to reduce with effect from 5 June 1985 the minimum export prices for butter from US$1,200 to US$1,000 per ton, and for anhydrous milk fat from US$1,440 to US$1,200 per ton. Simultaneously, an agreement was reached with regard to sales of old butter by derogation from the provisions of paragraphs 1 to 4 of Article 3, and pursuant to Article 7:1 of the Protocol Regarding Milk Fat. Discussions were held on possible technical modalities for any future adjustment of minimum prices following fluctuations in the value of the United States dollar. The Council subsequently decided to rescind the Resolution of 16 November 1984 and agreed that no further sales could take place under said Resolution. Deliveries of butter sold under the Resolution, should be completed by 30 June 1986, at the latest. Sales of about 200 thousand tons of butter were made at prices below the minimum of US$1,200 per metric ton f.o.b.

95. Stability in international prices of butter and anhydrous milk fat had been steadily eroded due to a weakening of demand for these two products and an appreciation in the value of the United States dollar. International market prices of butter were between US$1,620-US$1,700 per ton by the end of 1983. Prices continued to deteriorate so that in the third quarter of 1984 they hovered around US$1,200-US$1,450 per ton. Between 16 November 1984 and 31 May 1985 sales of about 200 thousand tons were made at prices below the minimum of US$1,200 per ton f.o.b. In the second quarter of 1985, international market prices were in the range of US$850-US$1,450 per metric ton f.o.b. It should be noted that prices at the lower end of the bracket were already below the minimum price set under the Protocol and were thus a source of serious concern to the participants. The decision of the Committee to revise the minimum prices downwards was expected to contribute to some stability in the international butter market. However, butter stocks remained high and continued to cause pressure on the market. In the third quarter of 1985, prices ranged between US$1,000 and US$1,150 per ton f.o.b. In the fourth quarter of 1985, prices remained at fairly low levels, between US$1,000 and US$1,200 per ton f.o.b. Certain offers reportedly had been made at less than the minimum price. The price situation and the level of stocks continued to cause serious concern.

Anhydrous Milk Fat

Production

96. Output of anhydrous milk fat in the first three quarters of 1985 was substantially higher in EC and Australia in relation to the corresponding period of 1984. It, however, decreased slightly in New Zealand in the period considered.
Trade

97. Traditionally, the major exporters of anhydrous milk fat were the EC and New Zealand. EC exports reached 110 thousand tons in the first three quarters of 1985, i.e. 32.5 per cent higher than in the corresponding period of 1984. Exports from New Zealand decreased to 27.4 thousand tons in the first nine months of 1985 compared with 28.3 thousand tons exported in the first three quarters of 1984. Australian exports showed a substantial increase in the period considered reaching 17.7 thousand tons as against 7.6 thousand tons exported in the first nine months of 1984.

Food aid

98. Under the 1984 food-aid programme, the EC provided 49 thousand tons of butter and butteroil to certain developing countries and multilateral agencies as food aid in 1984, as against 17 thousand tons in 1983 (Table 5). The aid component thus increased from 15 per cent of the total exports of this product in 1983 to 38 per cent in 1984. Under the EC Regulation No. 457/85 the aid programme for 1985 provided a maximum of 28.7 thousand tons of butteroil. In the first three quarters of 1985 deliveries of butteroil as food aid amounted to 23 thousand tons as against 39 thousand tons delivered in the corresponding period of 1984. The 1986 food-aid programme of the Community provided for a maximum of 27.3 thousand tons of butteroil.

99. Foreign donations by the United States under Section 416 during fiscal year 1985 (1 October 1984-30 September 1985) mainly to Mexico, Ethiopia and Mauritania, totalled some 24 thousand tons of butter oil and 1,800 tons of butter.

Stocks

100. In New Zealand, stocks of anhydrous milk fat, after reaching the high level of 11 thousand tons in the beginning of the year, came down to 8.5 thousand tons in October 1985. The Australian stocks during this period increased from 2,500 tons to 4,100 tons.

International prices (Tables 1 and 2 and Graph 3)

101. On 31 May 1985, the Committee of the Protocol Regarding Milk Fat decided to reduce the minimum price of anhydrous milk fat from US$1,440 to US$1,200 per metric ton f.o.b. as from 5 June 1985. International prices of anhydrous milk fat had been weakening since 1983. Prices in the first six months of 1985 were between US$1,290-US$1,650. During the second half of 1985, prices ranged between US$1,200 and US$1,360 per ton f.o.b. It should be noted that in the second half of 1985, prices at the lower end of the bracket were at the minimum price set under the Protocol.
Cheese

Production

102. In 1985 world cheese output was estimated at 12.7 million tons, about 2 per cent higher than in 1984. Another 2 per cent gain was projected for next year. In the EC, cheese output at 3.26 million tons in the first nine months of 1985 was nearly 1.5 per cent more than in the corresponding period of 1984. At the close of 1985, total production was expected to reach 4.2 million tons, 1.8 per cent higher in relation to previous year, despite the downturn in milk supplies as less milk moved into butter and skimmed milk powder manufacture. Somewhat the same situation was expected in 1986 as a result of the continued EC policy to expand cheese production. In Australia, cheese production at 99 thousand tons in the first nine months of 1985 was only marginally higher in relation to the level in the corresponding period of last year, but was expected to aggregate 166 thousand tons at the end of 1985, showing a net increase of 4 per cent over the previous year. The New Zealand production of cheese in the first three quarters of 1985, on the other hand, was slightly lower than in the corresponding period of last year, and was not expected in 1985 to exceed the level of 121 thousand tons, the same as in 1984. Relative gains were recorded in cheese output in Argentina (+ 1.3 per cent); Austria (+ 0.5 per cent); Finland (+ 5.1 per cent); Norway (+ 2.7 per cent) and Uruguay (+ 2.5 per cent) in the first three quarters of 1985. In Japan, cheese production in the first three quarters of 1985 added up to 13 thousand tons which was slightly lower than the level of the corresponding period of 1984. Production during the first nine months of 1985 also edged higher in Bulgaria (+ 11.7 per cent); Hungary (+ 0.3 per cent); Poland (+ 2.0 per cent) and Romania (+ 3.0 per cent), relative to the corresponding period of 1984.

103. Cheese output in the United States in the first nine months of 1985 at 1.69 million tons, was about 5 per cent more than the level in the corresponding period of the year before. Preliminary figures for 1985 indicated an almost 8 per cent rise in cheese production, reaching a level of 2.29 million tons. Further substantial gains were anticipated for 1986. Cheese production in Canada totalled 152 thousand tons in the first nine months of 1985, i.e. 5 per cent more than in the corresponding period of last year. It was expected to increase to 199 thousand tons by the close of 1985 and to 210 thousand tons in 1986. In the USSR, the production of cheese was around 800 thousand tons 2 per cent higher in 1985 than in 1984, and a further expansion was projected for 1986.

Trade

104. World trade in cheese, excluding the EC intra-trade showed a sustained rise over the past several years but in 1985 declined by 3 per cent due mainly to substantial reductions in shipments from the EC and New Zealand. The EC exports in the first three quarters of 1985 at 288 thousand tons were at least 13 per cent below those in the corresponding period of last year. In 1985, as a whole, exports stood 12 per cent below the level of 1984 due to severe price competition on
world market. The main destinations were the United States, Canada, Japan and some Middle East countries. Some recovery was forecast for 1986 as a result of an anticipated increase in world demand for cheese. Deliveries by New Zealand, which had increased by some 3 per cent in the first nine months of 1985 relative to the same period of last year, levelled off by the close of 1985 when the level stood at 90 thousand tons, the main outlets being Japan, USSR, North Africa and the Middle East. Under Article 7:2 of the Protocol, New Zealand sold a total of 2,177 tons in 1985 to different countries including Portugal, Denmark, Sweden, Hungary, Romania and Yugoslavia at prices below the minimum export prices. It was most likely that Article 7:2 would continue to be invoked by New Zealand to export low quality cheeses at prices below the GATT minimum export price. Australian exports of cheese during the first nine months of 1985 at around 52 thousand tons were about 3.5 per cent higher than their level in the corresponding period of last year. They were expected to aggregate 61 thousand tons in 1985, giving an overall increase of 7 per cent over the level of the year before. Australia also invoked Article 7:2 of the Protocol to export 430 tons of low quality cheese to certain European destinations in 1985, at prices below the minimum export price. Exports from Switzerland showed a small improvement in the first three quarters of 1985, though at the close of the year were estimated to have stood slightly below their level in 1984. Finland's exports of cheese at 27 thousand tons in the first three quarters of 1985 were about 3.5 per cent below their level of the corresponding period of last year and were reported to be relatively smaller for the whole of 1985. According to the trends observed in the case of some other participants, exports of cheese were generally higher during the first three quarters of 1985 from Bulgaria (+ 69.0 per cent); Hungary (+ 14.2 per cent) and Norway (+ 5.4 per cent); and were comparatively lower from Argentina (- 12.3 per cent) and Poland (- 13.5 per cent).

105. United States exports decreased to a level of 10.5 tons in the first three quarters of 1985 from 13 thousand tons in the corresponding period of 1984. For the year 1985 as a whole, however, they showed an increase of almost 8 per cent, reaching a level of 18 thousand tons. Canadian cheese exports doubled from 1984 to 1985, while Austrian exports were 2.6 per cent lower compared to last year.

106. During the fiscal year 1985, cheese donations by the United States under Section 416 totalled some 22,186 tons mainly to Poland (58 per cent); Chile (20 per cent); Mexico (17 per cent); Mozambique, Portugal, Haiti and Tanzania (5 per cent). Another 2 thousand tons was shipped under title II of the PL 480 programme. Certain quantities of cheese were also donated as food aid by Finland and Switzerland.

107. On the import side, the United States purchased a total of 91 thousand tons of cheese in the first three quarters of 1985 as against 95 thousand tons in the same period of last year. At the close of 1985, cheese imports added up to 135 thousand tons, bulk of which originated from the EC, New Zealand and Finland. The EC imports of cheese at 76 thousand tons on the other hand, were about 29 per cent higher during the first three quarters of 1985 than in the corresponding period of the previous year and were expected to aggregate 97 thousand tons for the
entire 1985. Similarly, cheese imports by Japan at 59 thousand tons were at least 7 per cent higher in the first three quarters of 1985 than in the corresponding period of 1984 and were estimated around 83 thousand tons for the entire 1985, which was 7 per cent more than the level of 79 thousand tons last year. The main suppliers were the EC, New Zealand and Australia. In Switzerland, cheese imports at 15.5 thousand tons remained relatively stable in the first three quarters of 1985. However, a surge was expected in imports with an anticipated increase in domestic demand. Indications suggested that cheese imports by developing countries somewhat progressed in 1985 and were expected to increase further in 1986.

Consumption

108. Preliminary figures for 1985 showed that consumption of cheese was nearly 3 per cent higher than in 1984. With the exception of a few countries, the demand for different types of cheese increased at a steady rate, and the outlook for 1986 was a further improvement in world demand for cheese, especially the speciality type cheeses.

109. Cheese consumption in the EC, which had increased by nearly 5 per cent in 1984 compared to its level in 1983, progressed at a slow pace in 1985. At around 4.2 million tons in 1985 it was only 1.1 per cent higher than in 1984. Consumption was reported to have increased in Argentina (+ 2.4 per cent); Bulgaria (+ 13.0 per cent); Finland (+ 10.7 per cent); Japan (+ 2.8 per cent); Norway (+ 3.6 per cent); South Africa (+ 2.2 per cent); Sweden (+ 0.1 per cent); the German Democratic Republic (+ 1.9 per cent) and Canada (+ 1.5 per cent); The United States consumption of cheese in 1984 was 2.33 million tons, but in 1985 it had increased by 4.5 per cent to reach an aggregate level of 2.44 million tons. Consumption also increased in the Soviet Union from 793 thousand tons in 1984 to 816 thousand tons in 1985. Elsewhere, either small declines were recorded or consumption remained unchanged.

Stocks

110. At the global level, cheese stocks remained unchanged at the close of 1985 in relation to their level at the end of 1984. On 1 July 1985, cheese stocks in the United States at 473 thousand tons were about 17 per cent less than in August 1984, but in October 1985 their level had increased to 485 thousand tons. In Australia, the expansion in cheese production was again reflected in expanded stock levels, which were relatively lower than a year earlier but still remained at high levels. New Zealand stocks were marginally above their level in 1984. Cheese stocks in the EC which were normally not subject to wide variations due to a strong domestic demand, somehow increased in 1985 as a result of less than an anticipated growth in demand and a fall in the EC's exports due to severe price competition on the world market. Private stocks on 12 December 1985 were estimated to be 111 thousand tons, of which 92 thousand tons were of Italian type cheeses. Cheese stocks were marginally higher in Austria, Bulgaria, Canada, Finland, Japan, Norway, Sweden, South Africa and Switzerland; and were relatively lower in Argentina, Hungary, Poland, Romania and Uruguay.
International prices (Tables 1 and 2 and Graph 5)

111. Since 1 October 1981, the minimum price for cheeses covered by the Protocol had been US$1,000 per metric ton f.o.b. Market prices, however, varied according to types of cheeses and the final destinations. International prices of Cheddar cheese, which had been in the range of US$1,200 and US$1,500 per ton, f.o.b. at the end of 1983, fluctuated between US$1,200 and US$1,350 per ton f.o.b. towards the end of the first quarter of 1984. They were, more or less, stabilized in the second quarter within a range of US$1,150-US$1,300 per ton f.o.b., but declined in the first quarter of 1985, mainly due to an appreciation in the value of the United States dollar and prices ranged between US$1,100-US$1,430 per ton f.o.b. During the third quarter of 1985, prices fluctuated between US$1,050 and US$1,270 per ton f.o.b. In the fourth quarter prices ranged between US$1,000 and US$1,300 per ton f.o.b., and competition continued to be keen on certain markets.

Other Dairy Products

Whey in powder or block, or concentrated

112. Total world production of whey powder showed a steady increase over the last ten years, from about 1 million tons in the mid-seventies to more than 1.5 million tons in 1984. Figures for the first nine months of 1985 indicated a further increase in that year, but this increase was less than 1 per cent. Demand remained weak throughout 1985 and prices were depressed and for September 1985 were reported to be below US$350/ton.

113. The European Communities had traditionally accounted for roughly half of total world production of whey powder, including whey concentrate and other whey products. In 1984, the Community production reached 720 thousand tons and figures for the first nine months of 1985 indicated a further increase, although rather by a small margin. Most of the production was disposed of within the Community mainly as animal feed and only a smaller part was exported. In 1984, exports of whey powder including lactosérum amounted to 54 thousand tons and 26 thousand tons were imported. Figures for the first nine months of 1985, indicated a further increase of as much as 10 per cent in both exports and imports.

114. Production of whey powder continued to expand also in other countries. In Finland, whey powder production showed an appreciable recovery in 1984 amounting to 22.7 thousand tons. In 1985, Finnish production showed a further increase of 15 per cent according to figures for the first eight months of the year. About three quarters of the supply was used for animal feed, while exports exceeded 4 thousand tons in 1984. Preliminary data for Norway, Sweden and Switzerland suggested a further decline in the output of whey powder in these countries in 1985.

115. In spite of a decline in imports from 1983 to 1984 Japan remained the most important outlet for whey powder. In 1984, Japanese imports reached 14.6 thousand tons, supplied mainly by Canada, the Community and
the United States. Imports into Bulgaria reached 8.2 thousand tons in 1984. Other major importing countries for whey powder in 1984 were: Mexico 8.5 thousand tons, Chile 3.5 thousand tons, China 4.8 thousand tons, Republic of Korea 9.5 thousand tons, Pakistan 8 thousand tons and the Philippines 4 thousand tons.

116. Production of whey powder in Australia exceeded 8 thousand tons in 1984. Whey powder exports from Australia which in 1983 had reached a peak of 8.4 thousand tons were down to less than 3 thousand tons in 1984. New Zealand production in the same year reached 13.5 thousand tons. Also New Zealand exports at 2.7 thousand tons were low in 1984. However, since the establishment of the Whey Products Corporation in 1982, substantial efforts were made to develop new outlets for whey and whey products. In 1985, nearly one half of the whey solids available from the New Zealand dairy industry was processed into a wide range of whey products. The product range included whey protein concentrates, whey powders, lactoalbumins, ethyl alcohol, lactose and whey cheese. The majority of these products were sold into the food ingredient trade with many lines having been specially developed to suit the requirements of individual customers and applications.

117. In 1985, Austrian whey powder production remained at the level of recent years, around 3.5 thousand tons, which was almost entirely disposed of on the internal market mainly as feed. According to figures for the first seven months of 1985, Canadian whey powder production was down by nearly 15 per cent compared with the previous year and if this tendency continued, total production for 1985 would amount to less than 47 thousand tons. On the contrary, United States production of whey powder showed a strong recovery in 1985, with a 12 per cent increase during the first eight months of the year and total annual production might have reached 450 thousand tons.

Concentrated milk

118. In 1984, world production of condensed and evaporated milk amounted to 4.72 million tons. Figures for production in major producing countries for the first seven months of 1985 suggested a decline of 1 per cent in total world production which might have reached only 4.67 million tons in that year. World trade in concentrated milk in 1985 was of the same order as in 1984, amounting to 770 thousand tons. Prices remained steady throughout 1985, on the average 4 to 5 per cent above those of the previous year (Dutch coffee milk).

119. In 1984, Community production of concentrated milk reached some 1.4 million tons. Figures for the first ten months of 1985 suggested a decline of around 2 per cent, and total annual production might be down by 25 to 30 thousand tons. Community exports in 1985, reached the same level as in the preceding two years, again amounting to 520 thousand tons, and the Community retained its share of more than two thirds of the world market.

120. In Norway, production of condensed milk remained at the traditional level of 10 thousand tons in 1985. Swedish production of condensed milk, which had been declining over three consecutive years seemed to
have recovered slightly in 1985, and a recovery was also reported for production in Hungary. Imports of condensed milk into Switzerland were the same in 1985, as in 1984 namely 4 thousand tons, while exports increased by one third to 1,200 tons.

121. In Australia, production of condensed, concentrated and evaporated milk showed an appreciable recovery in 1984, reaching 81.2 thousand tons, an increase of 12 per cent compared to the previous year. Figures for the first months of 1985 indicated, however, that the production would again be on the decline. Australian exports of condensed and evaporated milk were declining for the third consecutive year in 1984 amounting to less than 5 thousand tons compared to more than 10 thousand tons in 1982. In Argentina, production of condensed milk amounted to 8.1 thousand tons in 1984, corresponding to internal consumption and only 116 tons were exported. In 1985, both production and consumption declined by roughly one third (according to figures for the first half of the year), there were no exports and stocks in June 1985 were down to one half of their level one year earlier. South African production in 1984 was 25.4 thousand tons and the downward trend appeared to have continued in 1985. Exports were also declining in 1984 reaching 280 tons compared to 700 tons in 1982.

122. In Canada, production of concentrated whole milk recovered strongly in 1984/85, reaching 174.6 thousand tons but preliminary figures for 1985/86 indicated a significantly lower production at about 145 thousand tons. Consumption had been steadily declining since 1982, and more than two thirds of Canadian production were exported in subsequent years. In 1984/85 exports amounted to 137 thousand tons, but were for the subsequent year 1985/86 expected to reach only 105 thousand tons following a 20 per cent reduction in the special export programme for 1985/86. The high production and exports in 1984/85 were due to relatively favourable prices for concentrated whole milk compared to those for milk powder, which rendered sales of concentrated milk both to the domestic and export markets more attractive. Furthermore, export promotion efforts may also have helped to increase Canadian exports of condensed milk, notably to certain markets in Africa in 1984/85. In 1985, Canadian producers donated canned concentrated milk to Ethiopia and Mexico; 400 thousand and 6 thousand litres in terms of milk equivalent, respectively. United States production of condensed milk which had recovered sharply in 1984 was again high in 1985. Although the expansion in production levelled off late in 1984, it resumed its upward trend from April 1985. Austrian production of condensed milk showed a recovery from its low level in 1984, increasing by 5 per cent and amounting to nearly 15 thousand tons in 1985. In the USSR condensed milk production increased by almost 2 per cent from 1983 to 1984, reaching a total of 560 thousand tons, and the same level was expected to be attained in 1985. In 1984, 27 thousand tons were exported which corresponded to the average for recent years.

123. Imports of condensed milk into developing countries have been declining over the last three years. Notably there had been a decline in imports into countries in Africa and Latin America, while imports into countries in Asia continued to increase. Total imports into developing countries amounted to 706 thousand tons in 1984.
124. Total world production of casein which in 1984 was slightly lower than in the previous year, recovered in 1985 and again reached the relatively high level of 1983, amounting to 243 thousand tons. Half of this was accounted for by Community production of casein which rose by some 10 thousand tons from 1984 to 1985, in the latter year totalling some 130 thousand tons. In New Zealand production remained at 63 thousand tons the same as in 1984, and similarly production remained at traditional levels in Norway (4.2 thousand tons) and Austria (1.8 thousand tons). Polish production declined by 5 per cent amounting to some 40 thousand tons in 1985. Australian casein production which in 1984/85 was down to 8.1 thousand tons was expected to recover in 1985/86 to reach 10 thousand tons. Casein production in Argentina recovered in 1985 again exceeding 2 thousand tons, compared to 1.9 thousand tons in 1984. Similar developments were reported to have taken place in Uruguay.

125. The upward trend in total world casein trade continued in 1985 when it amounted to 175 thousand tons, in spite of a decrease in Community exports from 1984 to 1985. Preliminary figures indicate that total Community casein exports only reached 65 thousand tons in 1985, down by 13 per cent from the previous year, while imports remained unchanged at 18 thousand tons.

126. Casein exports from Poland continued their expansion in 1985, reaching 20 thousand tons or increasing by one third from the previous year, while exports from other European countries outside the Community showed little change. Exports from Argentina and Uruguay seemed to have remained, at the relatively low levels of the two preceding years in 1985. Australian exports declined in 1984/85 and the downward trend was continuing into 1985/86.

127. New Zealand exports of casein continued to expand in 1985, for 1984/85 reaching 77 thousand tons with substantial increases in sales to the United States and the Community. New Zealand thereby regained its position as the leading casein exporter. This resulted in a reduction of stocks from 39 thousand tons at the end of 1983/84 to 25 thousand tons at the end of 1984/85. A further stock reduction was forecast for the current year and stocks might at end May 1986 be less than 20 thousand tons. The expansion of New Zealand casein exports with record levels of sales of all casein products was the result of sustained sales efforts over a wide front and in all major markets. Significant developments of industry resources and manufacturing facilities enabled a higher proportion of the total casein product mix to be processed into products suitable for direct sale to end-users, offering a wide range of casein, caseinate and co-precipitate products. Concomitant with a policy of moving away from the commodity trade and into specialist product areas, it had been recognized that there was a need to sharpen product quality and uniformity along with customer service. This was considered to be particularly important for increased penetration into the food ingredient trade and the dairy industry. Research institutions and the Ministry of Agriculture and Fisheries had joined in an initiative to improve the quality of New Zealand casein and to adapt the products to market requirements.
128. Imports of casein into Japan had remained stable over recent years at a level of 23 thousand tons, with New Zealand supplying half of the needs and another third supplied by the Community.

129. The main outlet for casein in 1985, remained to be the United States, with imports reaching a total of 110 thousand tons increasing by 25 per cent from the previous year, and with prospects for a further increase in 1986. Wholesale prices in the United States were under some pressure in 1985, being 5 per cent lower than in 1984. According to the Farm Bill of 1985, a study would be conducted to determine whether imports of casein tended to interfere with or rendered ineffective the United States milk price support programme, and the results of the study would be reported to Congress not later than 60 days after the enactment of the Farm Bill.