THE MARKET FOR DAIRY PRODUCTS
SITUATION AND OUTLOOK
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SITUATION AND OUTLOOK

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This document forms part of the series of regular reports analysing the short-term situation and outlook for dairy produce markets issued quarterly under the responsibility of the Secretary-General.

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A. INTERNATIONAL MARKET DEVELOPMENTS

World production: slight overall decline

According to the FAO, world bovine milk production is forecast to decline slightly in 1994 to 518 million tonnes, compared to an estimated 520 million tonnes in 1993 and 524 million tonnes in 1992. A 2 per cent rise is expected in the developing countries, to 179 million tonnes. Much of this increase will be expected to occur in India, the largest developing country producer with an output of about 30 million tonnes, where production is expected to rise by about 3-4 per cent. With such an increase, it is likely that India will continue to be a net exporter of skim milk powder. The output of cow's milk is also forecast to rise by about 3-4 per cent in China (to around 5.3 million tonnes. Production in Latin America is expected to rise by about 1 per cent. Output in Africa is forecast to remain stable, which is nevertheless an improvement over the performance of recent years. Declines in milk production in the former USSR are forecast to continue in 1994, but at a slower rate: e.g. by about 1-2 per cent in the Russian Federation, and by about 5 per cent in Belarus and the Ukraine. In Eastern Europe, the forecasts call for stability of milk production in Poland and Hungary, while a further decline of about 17 per cent is forecast in the Czech Republic (according to the Ministry of Agriculture). In the OECD countries, an increase of about 1 per cent, to 236.53 million tonnes is forecast.

Prices: towards recovery

Export prices reported to the GATT International Dairy Arrangement (dollars per tonne, f.o.b.)

<table>
<thead>
<tr>
<th>Product</th>
<th>1st Qtr. 1994</th>
<th>2nd Qtr. 1994</th>
<th>3rd Qtr. 1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skim milk powder</td>
<td>1 450 - 1 600</td>
<td>1 425 - 1 620</td>
<td>1 500 - 1 900</td>
</tr>
<tr>
<td>Whole milk powder</td>
<td>1 380 - 1 560</td>
<td>1 425 - 1 600</td>
<td>1 475 - 1 750</td>
</tr>
<tr>
<td>Butter</td>
<td>1 350 - 1 480</td>
<td>1 100 - 1 500</td>
<td>1 450 - 2 300</td>
</tr>
<tr>
<td>Butteroil</td>
<td>1 625 - 1 780</td>
<td>1 400 - 1 800</td>
<td>1 150 - 1 800</td>
</tr>
<tr>
<td>Cheese (Cheddar)</td>
<td>1 650 - 2 000</td>
<td>1 750 - 1 900</td>
<td>1 650 - 2 100</td>
</tr>
</tbody>
</table>

International prices for some dairy products have begun to pick up from recent low levels, in particular those of milk powders and of butter, reflecting improving demand and lower levels of stocks internationally.

Food aid: stability of 1994 shipments

The total volume of food aid is not expected to rise significantly in 1994, compared to 1993 in view of rising output in the developing countries in general, and stable output in Africa. Shipments to Eastern Europe and the former USSR are expected to decline slightly in 1994, in response to the improved outlook for milk production in these areas.
B. DEVELOPMENTS IN NATIONAL MARKETS AND POLICIES

CANADA

- Adjustment measures and policy developments in the dairy sector

Price increase

The Canadian Dairy Commission announced that on August 1st, 1994, the Target Return to producers was increased from $50.76 to $52.28 per hectolitre of milk containing 3.6 kilograms of butterfat. The processor margin was increased to $7.83, up from $7.60 per hectolitre.

The support price for skim milk powder rose from $3.498 to $3.708 per kilogram. The support price for butter is maintained at $5.324 per kilogram.

A charge of $0.12 per hectolitre was added to the Target Return to cover costs associated with normal stocks of butter held by the Commission to ensure domestic demand is met, and to cover administrative costs related to the Commission’s domestic marketing activities.

Market sharing quota increase

On August 1, 1994, the Market Sharing Quota (MSQ) was increased by 2.5 per cent. On August 17, 1994, the MSQ was increased by a further 2 per cent. The increase is retroactive to August 1, 1994.

A review of year-end milk production statistics, butter stocks and projected domestic requirements prompted the quota increase. Requirements are higher while stocks are lower than anticipated in July 1994. With the increase, the total MSQ for the 1994–95 dairy year is established at 43.7 million hectolitre containing 3.6 kilograms of butterfat.

Government decisions on rbST

The federal government accepted the recommendations put forward by the Standing Committee on Agriculture and Agri-Food. The government has obtained from the manufacturers of this product a voluntary delay on sale and use of rbST in Canada, until July 1, 1995.

As part of the recommendations, a task force made up of consumer, government and industry representatives will use this period to review rbST’s impact on the dairy industry, human health, animal health and genetics, as well as consumer reaction to the use of rbST in the United States. The report from the task force will be presented to the Minister of Agriculture and Agri-Food prior to July 1, 1995.

UNITED STATES

- Markets developments and related factors

August milk production in the 21 monthly reporting States posted the largest increase from a year earlier since late 1992. This year’s fairly strong milk prices, bST and favourable August weather boosted production 2 per
cent. A large gain in milk per cow easily outweighed a relatively small decline in cow numbers.

Total US cheese production during August was 533 million pounds, 5 per cent above August 1993. Output in the first eight months of 1994 was 4 437 billion pounds, up 2 per cent from the same period in 1993. American-type cheese production during August totalled 242 million pounds, up 3 per cent from August 1993. For the first eight months of the year, American-type cheese stood at 1 999 billion pounds, down 1 per cent on 1993.

Butter production during August totalled 88,7 million pounds, 10 per cent above August 1993. Output in the first eight months of the year totalled 888,6 million pounds, down 3 per cent on 1993.

JAPAN

- Markets developments and related factors

Raw milk deliveries for FY 1994 (beginning in April) up to July decreased by 2.7 per cent compared to the same period last year. It is estimated that raw milk production in FY 1994 will be lower than that of last year.

Demand for drinking milk for FY 1994 up to July increased by 4.3 per cent compared to the same period last year, due to the influence of favourable climatic conditions. It is estimated that demand for drinking milk in FY 1994 will exceed that of last year.

Demand for milk used for manufacturing dairy products for FY 1994 up to July decreased sharply by 12.9 per cent compared to the same period last year. It is estimated that demand for this type of milk in FY 1994 will be lower than that of last year.

Consequently, production of butter for FY 1994 up to July decreased also sharply compared to the same period last year (-23.3 per cent). However, since the butter market remains fragile with low demand, substantial stocks of this product are the main concern.

AUSTRALIA

- Market developments and related factors

Australian milk production in 1993-94 reached a record of 8,076 million litres. The previous record of 7,523 million litres was set in 1969-70.

Key factors behind the increase in 1993-94 milk production have been the continuation of excellent seasonal conditions, increased use of supplementary feed on farms and an improvement in underlying farm productivity (mainly via improved genetics and overall management practices). A slight increase in dairy cow numbers also contributed to the 1993-94 rise. Despite this marginal increase, the number of cows has declined to only 58 per cent of the 1969-70 level.
The bulk of the increase in milk production has been directed to export markets for manufactured products. Preliminary estimates are that exports account for some 44 per cent of milk production in 1993-94.

The value of Australian dairy exports is forecast to fall by 2 per cent to $A1,134 million in 1994-95. The decline in export returns reflects lower world dairy product prices coupled with a strengthening of the Australian exchange rate which will further reduce the price in Australian dollar terms. As a result, manufacturing milk prices are forecast to decline by 5 per cent in 1994-95, to average 24 cents per litre.

- **Adjustment measures and policy developments**

As of 1 July 1994 market support rates are as follows:

<table>
<thead>
<tr>
<th>Product</th>
<th>Support rate 27/9/93-2/12/93</th>
<th>Support rate as of 3/12/93</th>
<th>Support rate as of 1/7/94</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butter</td>
<td>$301</td>
<td>$295</td>
<td>$296</td>
</tr>
<tr>
<td>Cheddar</td>
<td>$360</td>
<td>$352</td>
<td>$355</td>
</tr>
<tr>
<td>SMP</td>
<td>$288</td>
<td>$282</td>
<td>$285</td>
</tr>
<tr>
<td>WMP</td>
<td>$305</td>
<td>$298</td>
<td>$301</td>
</tr>
</tbody>
</table>

**NEW ZEALAND**

- **Market developments and related factors**

**1993/94 Farmgate Milk Prices**

The estimated average farmgate price for milk for the year ended May 1994 was NZ$3.32 per kg milksolids [NZ$0.28 or US$0.17 per litre of milk]. The New Zealand Dairy Board’s (NZDB) basic milk price for 1993/94 was $2.90 per kg milksolids. Individual dairy companies pay margins above this amount, reflecting the cost efficiency and product innovation gains they have achieved. The highest payout by any company was NZ$3.49 per kg milksolids, a company margin of NZ$0.59 above the NZDB basic price.

**1994/95 Production**

Total dairy cow numbers were estimated at around 2.806 million head at the start of the 1993/94 season. It is expected that June 1994 cow numbers will show a further increase on the June 1993 level. Individual dairy companies have reported increases in numbers of cows in milk, but as yet a national total is not available.
The cumulative New Zealand milk intake for the 1994/95 season to date is around 10 per cent ahead of the 1993/94 season. This reflects an early start to the season, and generally good pasture growth during August. However, this higher level of production is not likely to be sustained throughout the entire season, if "normal" (drier) weather conditions prevail over the summer months. Many farmers have depleted their reserves of winter saved pasture during July and have been applying nitrogenous fertiliser to boost early season pasture production. Good weather conditions have resulted in above average pasture growth rates in the major dairying districts (Northland, Waikato, Taranaki). The Southland and Otago regions, which have experienced an expansion in dairying during recent years, have suffered cold conditions during early September.

EUROPEAN COMMUNITY

- Market developments and related factors

EC milk production fell below 1993 levels in mid-June with the onset of hot weather and did not recover until September. Hot temperatures caused stress in animals and drought caused a lack of forage in certain regions. The heatwave also had an impact on consumption of drinking milk and fresh dairy products such as yogourts which increased during summer.

EC deliveries for 1994 are forecast to reach 102.2 million tonnes, 0.9 per cent less than in 1993.

- Adjustment measures and policy developments in the dairy sector

Given the balance of the market situation which has been the subject of a report by the Commission, the Council of Ministers of Agriculture held 18 July, 1994, has decided to maintain the quotas at the current level for the reference period 94/95 and 95/96. Furthermore, it has been decided to implement a supplementary reduction of the butter intervention price by one per cent as of 1 August 1994. This constitutes a global reduction of 3 per cent compared to the applicable price of 30 June 1994.

The Council has abolished the intervention purchasing regulations for the cheese grana-padano and parmigiano reggiano.

The refunds have been reduced by 5 per cent on 1 July. This represents the second revision this year.

United Kingdom

- Markets development and related factors

As a result of inclement weather in April and May and the dry weather in June and July, forage stocks are somewhat limited. Many farmers are already feeding silage intended for winter feeding.

Quality of silage analysed to date is good.
Forward concentrate prices have eased based on the prospect of good soya and maize harvests in the US.

More recent changes in exchange rate have put upward pressure on imported raw material prices. Spot and forward prices are now similar for any raw materials.

There are still many dairy farmers who have not signed contracts with a milk buyer but there is greater interest in milk selling groups (of producers).

There have been remarkable increases in quota buying and leasing prices. Purchase prices have been up to 60p per litre and leasing from 12p up to 15p per litre. Such prices are unprecedented at this time of the year.

Some farmers are beginning to recognise the need for expansion but are being restrained by such higher prices. There is a need urgently for consideration of the issue of inter-community trade in quota.

Nitrate sensitive areas and the costs of pollution control are issues of concern for dairy farmers.

The BSE restraint on livestock sales is beginning to have a knock-on effect on profitability. Its effect is best seen reflected in calf prices which have so far fallen by £30 to 40 per head.

**SWITZERLAND**

- Adjustment measures and market developments

The production of cheese, an important sector of the dairy market representing half of all marketed milk, will diminish remarkably in 1994 (forecast of 133,000 tonnes, minus 2 per cent) mainly due to an administrative implementation of qualitative and general manufacturing restrictions concerning mostly Emmental and Gruyère. This measure is consequent to the difficulties of sale at a national level (market saturation) as well as internationally (lack of competitiveness and unfavorable exchange rates for the Swiss Franc). The decline in cheese production has lead to an increase in butter production which is increased by the constant rise in the milk fat content.

**TURKEY**

- Market developments and related factors

The latest milk/feed price ratio is as follows:

Milk price: 4 721,3 TL/liter  
Feed price: 3 950,0 TL/liter  
Latest milk/feed price ratio: 1,2.
- **Adjustment measures and policy developments in the dairy sector**

  Average milk buying price of SEK (Dairy Industry Corporation) increased to 4.721,3 TL/liter.

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  **NON OECD COUNTRIES**

  **SLOVAK REPUBLIC**

  - **Market developments and related factors**

    Milk production is expected to reach 1 156.8 million litres in 1994, a decrease of 57.6 million litres, i.e. 4.7 per cent compared to 1993.

    Imports of milk products amounted to 46 500 tonnes during the first half of 1994.

    Exports of milk products amounted to 73 000 tonnes in the first half of 1994. For the entire year, exports are expected to be 146 000 tonnes, a decrease of 53 800 tonnes compared to 1993.

    Consumption of milk products in 1994 will probably be slightly higher in 1994 compared to 1993 (920 million litres against 894 million litres).
Table III
Table V
Table VI
Table VII
Table VIII