THE MARKET FOR DAIRY PRODUCTS

SITUATION AND OUTLOOK

FIRST QUARTER 1995

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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I. DEVELOPMENT OF MARKETS AND POLICIES IN THE DAIRY SECTOR DURING THE FIRST QUARTER OF 1995

1. INTERNATIONAL MARKET DEVELOPMENTS

Russia’s return on the international market

The first quarter of 1995 was characterised by Russia’s return on the international butter market. Purchases by Russia from the UE between the beginning of the year and the beginning of March are estimated by ZMP at 40 000 tonnes. This resumption in Russian imports is due to the acute shortage of this product on the domestic market as well as the sudden availability of currency, allowing the purchase of butter at international market price. It is estimated that at present only about 40 000 tonnes of the country’s monthly requirements of around 80 000 tonnes stem from domestic production. This is probably largely due to a reduction in dairy stock (−5 per cent between October 1993 and October 1994) — a large number of cows having been slaughtered to meet the demand for beefmeat — and because in Russia milk production seems to be one of the least profitable agricultural activities.

In the middle of winter, Russia normally imports its butter from New Zealand and Australia. But because of the summer drought in those regions, as well as of the tendency of these countries to favour production of cheese and high value-added dairy products to the detriment of butter and milk powder and to orient their exports towards higher paying markets such as South-East Asia and Latin America, they have not been able to meet the demand. As public and private butter stocks were low in the EU and the United States, this has lead to a dramatic increase in butter world prices of up to more than US$/t 2000.

Dramatic increase in dairy world prices

The increase in butter prices had an impact on the milk powder markets: on the whole milk powder market, the production volume of which is lower when there is an increase in butter production and for which new markets for exports opened up, especially in Latin America. The market of skimmed milk powder, a by-product of butter production, was also affected. The consequences have been price increases of these products.

Cheese prices have remained firm.
### Export prices reported to the WTO International Dairy Arrangement
**(dollars per tonne, f.o.b.)**

<table>
<thead>
<tr>
<th>Product</th>
<th>3rd Qtr. 1994</th>
<th>4th Qtr. 1994</th>
<th>1st Qtr. 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skim milk powder for human consumption</td>
<td>1 500 - 1 900</td>
<td>1 750 - 2 000</td>
<td>1 900 - 2 250</td>
</tr>
<tr>
<td>Whole milk powder</td>
<td>1 475 - 1 750</td>
<td>1 600 - 2 000</td>
<td>1 900 - 2 250</td>
</tr>
<tr>
<td>Butter</td>
<td>1 450 - 2 300</td>
<td>1 300 - 1 850</td>
<td>2 000 - 2 430</td>
</tr>
<tr>
<td>Butteroil</td>
<td>1 150 - 1 800</td>
<td>1 480 - 2 230</td>
<td>2 100 - 2 580</td>
</tr>
<tr>
<td>Cheese (Cheddar)</td>
<td>1 650 - 2 100</td>
<td>1 650 - 2 100</td>
<td>1 900 - 2 400</td>
</tr>
</tbody>
</table>

At its Meeting of March 1995, the International Dairy Arrangement has decided that the minimum prices for butter and butteroil, which had been suspended for one year since May 1994, would be implemented again. The minimum price for butter has been set at 1 350$/t f.o.b. and for butteroil at 1 625$/t f.o.b.

### 2. DEVELOPMENTS IN NATIONAL MARKETS AND POLICIES

#### CANADA

- **Adjustment measures and policy developments in the dairy sector**

  To help the government meet its deficit targets, the dairy subsidy will be reduced by 30 per cent over the next two years. The subsidy of $5.43 per hectolitre will be cut by 15 per cent in each of the next two dairy years, beginning August 1, 1995.

#### UNITED STATES

- **Market developments and related factors**

  Early crop conditions appear favourable for crops.

  With the decline in the US dollar and tightness in the international milk products market, the US is exporting butter commercially, but domestic sales of butter are expected to slow. Larger cheese and fluid milk sales are expected in 1995. Cheese sales got off to a fast start this year. Commercial use of nonfat dry milk may be unchanged or lower than last year. Projected ample Midwest milk output will reduce nonfat dry milk use in cheese production.

  Surpluses of milkfat and skim solids are projected to stay below 4 per cent of production. However, slightly larger surpluses of skim solids are expected to push farm milk prices 2 to 5 per cent below 1994.
MEXICO

- Market developments and related factors

Production trend

In March 1995 national production of liquid milk was 571,169,000 liters with accumulated production for the current year amounting to 1,649,500,000 liters, representing an increase of about 9 per cent over the same month of the previous year and an increase of 3 per cent for the entire quarter.

Most of this production came from Jalisco, Coahuila, Durango, Guanajuato and Chihuahua, which together provide 53 per cent of national production.

Producer prices have also been increasing and production has been stimulated by prospects of improved earnings; a special case is that of the firm Leche Industrializada CONASUPO (LICONSA) which has initiated advanced purchases with prices above those of the previous year.

According to the Monthly Industrial Survey established by the National Institute for Statistics, Geography and Computing (INEGI) the milk industry is continuing to increase production at a steady rate in the following areas:

- Liquid milks (pasteurised, pasteurised and homogenised, ultra pasteurised and rehydrated).
- Milk powder (full cream, infants, and other special diets).
- Condensed milks.
- Milk products (cream or milkfat and cheeses).
- Other milk-based products (cream or milkfat for sale and foodstuffs with vitamins and flavours in milk powder form).

On the other hand, production of evaporated milks has in some respects started to decline.

Employment generated by milk processing activities is estimated at 13,276 persons employed, a 2.2 per cent increase over the previous February; remuneration paid thus amounted to 37,926,000 new pesos, representing an increase of 5.32 per cent.
Consumption

Consumption of milk products in Mexico has shown a continuing upward trend since the beginning of the 1990s, to reach apparent consumption of 131 liters per head in 1994.

This means that national production is inadequate to meet demand and imports are required to supply the population; the Compañía Nacional de Subsistencias Populares (CONASUPO) has been charged with meeting domestic needs through imports contracted on a regular basis.

Supply

Since 1991 the Compañía Nacional de Subsistencias Populares (CONASUPO) has sold imported skimmed powdered milk by public auction to all private individuals and corporations using it as a raw material in industrial processing. Supply arrangements, intervals and volumes are determined jointly by the Working Group made up of the Secretariats for Agriculture, Livestock and Rural Development (SAGAR), for Trade and Promotion of Industry (SECOFI), CONASUPO, and the firm Industrialised Milk CONASUPO (LICONSA).

From that date the sale price determined as above reflects fluctuations in the rate of exchange against the US dollar and the corresponding international price, as well as importation costs (MN$167.00/ton) to support the price of domestic liquid milk.

At auctions to date the minimum official price remained the same from September 1991 to January 1994, when it was fixed at MN$7 000 per ton plus operating expenses.

At subsequent auctions, for both external and internal reasons, these official prices have changed and as a result there has been an upward trend in prices set at the auctions of 24 February, 24 March, 18 April and 12 May in respect of consumption in the first half of 1995, i.e. MN$9 916.31, MN$13 796.23, MN$15 635.22 and MN$13 458.82. It should be pointed out that demand by enterprises in the past two months has been erratic.

External sector

In the first 10 months of 1994 imports of liquid and powder milk from the United States showed a significant reduction at US$58.8 million as against US$137.5 million in the corresponding previous period, i.e. a fall of 57.3 per cent.

On the other hand, Mexican purchases of industrialised milk products, such as yogurt, butter and cheese, increased by 16.8 per cent in the last reference period from US$53.64 to US$62.67 million.
Mexican purchases of powdered milk from the United States declined significantly from January to October 1994 compared to the same period of the previous year, falling from 64 365 to 17 633 tons, i.e. by 72.6 per cent.

In the course of the TLC negotiations it was agreed that dehydrated milk from the United States would remain protected by a customs quota fixed at 41 200 tons for 1995, which quantity can be imported free of duty. Volumes in excess of this quota must pay 127.8 per cent ad valorem duty in the present year.

Imports of powdered milk

Given the present world context, quotations received by CONASUPO since January 1995 started to rise sharply.

The volume of purchases in the future will depend on developments on the domestic market, and on the decision by the Sectoral Co-ordinator and the Secretariat for Trade and Promotion of Industry regarding whether as from 1996 CONASUPO will continue to play a part in the marketing of powdered milk.

JAPAN

- Market developments and related factors

Last summer the hot weather increased considerably the demand for drinking milk, on the other hand decreased the production of processed products.

This increase in demand for skimmed milk powder has consequently made the market situation rather difficult to cope with since the beginning of the autumn. In order to meet the demand, the LIPC imported 17 000 tonnes of skimmed milk powder from November 1994 to March 1995.

In addition, the milk producers’ organisation decided to change the milk production target for 1994 from the minus 2.8 per cent level of FY 1993 to the minus 1.9 per cent level of FY 1993.

Regarding the butter market, the supply-demand situation is continuing to ease off but the butter stock remains at a high level.

- Adjustment measures and policy developments in the dairy sector

At the end of March 1995, the Government of Japan decided not to change the level of administrative price and the ceiling quantity for the deficiency payment for FY 1995:
**Milk for processing**

<table>
<thead>
<tr>
<th></th>
<th>FY 1993</th>
<th>FY 1994</th>
<th>FY 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranteed Price (¥/kg)</td>
<td>76.75</td>
<td>75.75</td>
<td>75.75</td>
</tr>
<tr>
<td>Standard Transaction Price (¥/kg)</td>
<td>65.26</td>
<td>64.26</td>
<td>64.26</td>
</tr>
<tr>
<td>Deficiency Payment (¥/kg)</td>
<td>11.49</td>
<td>11.49</td>
<td>11.49</td>
</tr>
<tr>
<td>Ceiling Quantity for</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deficiency Payment ('000 tonnes)</td>
<td>2 350</td>
<td>2 300</td>
<td>2 300</td>
</tr>
</tbody>
</table>

**Stabilisation Indicative Prices for Designated Dairy Products**

<table>
<thead>
<tr>
<th></th>
<th>FY 1993</th>
<th>FY 1994</th>
<th>FY 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butter (¥/kg)</td>
<td>1 032</td>
<td>993</td>
<td>993</td>
</tr>
<tr>
<td>Skimmed Milk Powder (¥/25kg)</td>
<td>12 841</td>
<td>12 841</td>
<td>12 841</td>
</tr>
<tr>
<td>Condensed Whole Milk (¥/24.5kg)</td>
<td>8 055</td>
<td>8 055</td>
<td>8 055</td>
</tr>
<tr>
<td>Condensed Skimmed Milk (¥/25.5kg)</td>
<td>7 193</td>
<td>7 193</td>
<td>7 193</td>
</tr>
</tbody>
</table>

**AUSTRALIA**

- **Market developments and related factors**

A major factor affecting milk production in Australia in 1994/95 has been the marked decline in milk solids content - both milk fat and protein. It is estimated that the average milk fat percentage in 1994/95 will be 0.1 percentage points lower than 1993/94. This has been reflected in lower product yields and overall production of manufactured products.

There are several possible reasons for this decline in milk solids - reasons include seasonal conditions and associated impacts on pasture quality, decreased rates of feed grain (due to increased purchase prices) and the underlying trend in the genetic structure of the Australian dairy herd (mainly increased use of US Holstein genetics).

The drought conditions which prevailed in several dairy areas have now passed. However, feed grain prices remain high as a result of lower grain production in Australia.

Autumn seasonal conditions in the major dairy regions have been enhanced by recent heavy rains. This will provide a sound basis for 1995/96 production.

While subject to further analysis and review, current indications suggest that 1995/96 national milk production will be slightly higher than likely final 1994/95 production. Given Australia's dependence on pasture, the final outcome for both 1994/95 and 1995/96 will be largely determined by seasonal conditions.
With the decline in overall milk solids, and the associated decline in manufactured product output, there has been some decline in export availability i.e. compared to earlier season expectations. This factor, combined with the general increases in international market prices, will result in lower June 30, 1995 stock levels.

Domestic demand for dairy products in Australia has improved in line with the underlying improvement in the Australian economy. Major growth areas include dairy desserts/yogurts and mozzarella/pizza type cheeses. Food service sector (mainly fast food outlets) demand for cheese continues to grow.

- Adjustment measures and policy developments in the dairy sector

Under the Uruguay Round, the current support arrangements are classified as an export subsidy and are being terminated on 30 June 1995. New support arrangements have been announced by the Government to take effect from 1 July 1995, subject to the passage of enabling legislation. The new scheme will be a clearly identifiable domestic market support scheme based on differential levies on milk consumed on the domestic market, used in manufacturing and as market milk, and will be paid direct to manufacturing milk producers by the Australian Dairy Corporation. Manufacturers will be able to recoup the input levy from domestic consumers. The level of support will be the same as that which would have been delivered under the 1992 Plan and will cease on 30 June 2000.

NEW ZEALAND

- Market developments and related factors

The 1994/95 Production Season

Early season gains in production were effectively lost with the onset of drier than normal weather conditions during December and January. Rains in February have ensured pasture recovery in most areas, but production is still expected to be down 2 per cent on last season. Total milk solids production is expected to be around 720 000 tonnes (415 000 tonnes milkfat) - the second highest on record after 1993/94’s 735 000 tonnes milk solids (422 000 tonnes milkfat).

Shifts in international relative prices saw a swing towards increased production of butter and skim milk powder, in 1994/95, at the expense of increased cheese and whole milk powder production. It is expected that there will be a return to increased emphasis on cheese and whole milk powder production in 1995/96, with a consequent reduction in emphasis on butter and skim milk powder production, as butter prices are not expected to improve further in the short term.

Expanding Capacity

New Zealand dairy farmers have continued to build up their herd numbers in the expectation of increased market opportunities with the phasing in of the GATT Uruguay Round disciplines. Another recent factor in encouraging farmers to retain dairy cattle has been the impact of falling beef prices on dairy farmers’ decisions to cull cows.
Prices

The dumping of surplus dairy products in Asian markets by the United States, although unwelcome, is not expected to impact significantly on the prices received for New Zealand dairy exports. Nevertheless, such moves have generated some concern on the part of the New Zealand Government and the New Zealand dairy sector.

In February 1995, the New Zealand Dairy Board’s (NZDB) advance of the basic price for 1994/95 paid to Dairy Companies was increased to NZ$2.80 per kg milksolids or NZ$4.87 per kg milkfat from the initial level set in October 1994 at NZ$2.60 per kg milksolids or NZ$4.52 per kg milkfat.

Significant increases in world prices, especially milk powders, over the season to date have been offset to a high degree by the appreciation of the New Zealand dollar. The effect of this appreciation was mitigated to a large extent by the NZDB’s forward cover of the exchange rate. As a result, the NZDB’s final basic price payment is expected to remain close to the 1993/94 level of $2.90 per kg milksolids or $5.05 per kg milkfat. However, in future seasons the NZDB will become more exposed to the higher value of the New Zealand dollar as it is incorporated into the forward exchange rates.

Key Dairy Facts and Forecasts

<table>
<thead>
<tr>
<th>Year Ended May</th>
<th>1993 (r)</th>
<th>1994 (r)</th>
<th>1995 (e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening dairy cow numbers (1) (’000)</td>
<td>2 723</td>
<td>2 808</td>
<td>2 900</td>
</tr>
<tr>
<td>Milksolids processed (’000 tonnes)</td>
<td>649</td>
<td>735</td>
<td>720</td>
</tr>
<tr>
<td>Milkfat processed (’000 tonnes)</td>
<td>372</td>
<td>422</td>
<td>415</td>
</tr>
</tbody>
</table>

Production (’000 tonnes)

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butter (2)</td>
<td>276</td>
<td>306</td>
<td>310</td>
</tr>
<tr>
<td>Cheese</td>
<td>145</td>
<td>193</td>
<td>200</td>
</tr>
<tr>
<td>Whole milk powder</td>
<td>308</td>
<td>333</td>
<td>330</td>
</tr>
<tr>
<td>Skim milk powder</td>
<td>127</td>
<td>141</td>
<td>156</td>
</tr>
<tr>
<td>Casein</td>
<td>74</td>
<td>79</td>
<td>68</td>
</tr>
</tbody>
</table>

Exports (’000 tonnes)

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butter (2)</td>
<td>229</td>
<td>265</td>
<td>269</td>
</tr>
<tr>
<td>Cheese</td>
<td>121</td>
<td>137</td>
<td>169</td>
</tr>
<tr>
<td>Whole milk powder</td>
<td>262</td>
<td>306</td>
<td>331</td>
</tr>
<tr>
<td>Skim milk powder</td>
<td>114</td>
<td>151</td>
<td>140</td>
</tr>
<tr>
<td>Casein</td>
<td>75</td>
<td>87</td>
<td>68</td>
</tr>
</tbody>
</table>

(1) Dairy cows and heifers, in milk or in calf at start of season.
(2) Includes AMF and fat mixes.

Sources: Statistics New Zealand, New Zealand Dairy Board, Ministry of Agriculture and Fisheries
The European Union internal market during the first quarter of 1995, like the world market, can be described as firm and reasonably sustained, with prices clearly on the rise.

Several internal and external factors have in recent months driven dairy prices upwards:

- trends in world prices. Since March 1994, butter prices have risen fairly steadily: from $1 100 per tonne to over $2 000 per tonne (FAB). SMP prices during the same period have risen from $1 450 to $2 100 per tonne (FAB), and whole milk powder prices from $1 250 to $2 150/2 225 per tonne (FAB);
- demand by Russia;
- smaller than expected milk deliveries in the EU. Producers in certain Member States restricted deliveries for fear of exceeding their quotas;
- smaller than expected milk deliveries in New Zealand owing to weather conditions;
- entry into force of the Uruguay Round Agreement, making it necessary to export a maximum of basic dairy products before 30 June and of non-Annex II products before 15 October;
- minimum available stocks worldwide (butter: 315 000 tonnes; SMP: 215 000 tonnes).

Given the incentive effect of high world prices, export refunds, especially for butter, have been reduced, so as not to disrupt the internal market and keep it regularly supplied. The world market situation and US dollar instability are giving cause for considerable uncertainty and fragility in the short run.

The EU has clearly played a major part in reducing world stocks. The available intervention stock of butter is currently ±25 000 tonnes and is still going down.

In 1994, apparent consumption increased by about 100 000 tonnes; the lag in the volume of butter and butteroil exports was made up for by the end of the year.
These facts, combined with a 3 per cent fall-off in production (down 45 000 tonnes) in 1994 compared with the previous year, have kept prices high - close to intervention prices or even higher, as in France (104.3 per cent), Denmark (103.1 per cent), the United Kingdom (101.4 per cent), Northern Ireland (103 per cent) and Finland (103 per cent).

The same observations hold true for skim milk powder (SMP). In 1994, SMP production fell by 6.5 per cent (80 000 tonnes less than in 1993), continuing the downward trend begun in 1990. Stocks stand at 57 000 tonnes.

Skim milk sales have followed the same trend as production. The export outlook is good and should remain so; exports should exceed those of 1994, which admittedly were down by 57 per cent compared with 1993.

On the other hand, cow milk cheese production in 1994 was 80 000 tonnes higher than in 1993 (up 1.5 per cent), reaching a total of 5 290 000 tonnes.

Consumption continues to rise and present stocks (95 362 tonnes) are at their lowest level in several years (they are down by 18.7 per cent compared to 31.12.93).

<table>
<thead>
<tr>
<th>Private cheese stock situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.12.93</td>
</tr>
<tr>
<td>31.12.94</td>
</tr>
<tr>
<td>16.03.95</td>
</tr>
</tbody>
</table>

Since September, cheese prices showed a tendency to rise, which continued through into January. In February, they showed signs of flagging, but they remain high, especially in Italy where they are still rising.

Trends by type of cheese:
- Provolone: up;
- Cheddar: steady;
- Emmenthal, Gouda: down until September, recovery until January, down in February.

Adjustment measures and policy developments in the dairy sector

Since 1 January 1995, the amount of aid for butter sold on the internal market declined by 6 Ecus per 100kg; it declined by 8 Ecus per 100kg for concentrated butter and 2 Ecus per 100kg for cream. The volume of butter receiving aid was greatly reduced in the first quarter of 1995 (93 000 tonnes as against 136 000 tonnes in the first quarter of 1994).

Fixed costs on private storage aid for cheese were down by 17 per cent and storage costs by 5 per cent.
Refund payments were revised downwards several times:

- 13.01.95 : 3 per cent linear decrease on all products (except for SMP, 5 per cent decrease);
- 26.01.95 : 3.35 per cent linear decrease on butter, 1.65 per cent on SMP;
- 27.01.95 : 3.35 per cent linear decrease on butteroil;
- 08.02.95 : 5 per cent linear decrease on butter;
- 14.02.95 : 7 per cent linear decrease on butter.

The Commission, in setting prices for the next dairy year, has proposed a further 2 per cent reduction in the butter intervention price. This modification will have no immediate effect on producer incomes, since market prices were at present well above the intervention purchase price. The Commission has also proposed setting a "typical" protein content - 35 per cent - for SMP intended for intervention; powder not meeting this specification would need to be reprocessed.

All the measures required for implementing the GATT are currently under discussion and will be approved during the month of April.

The 1995-1996 programme for promoting dairy product consumption will be submitted to the Council, having regard to the following points:

2. Curtailing the number of programmes by fostering synergy; co-ordination but not uniformity.
3. Accepting an extension to milk products, without naming them specifically; the theme would be liquid milk and/or all milk products.
4. Making cost-benefit analysis a top priority.
5. Avoiding comparative advertising; stressing positive aspects only.
6. Not mentioning national origin, while making it compulsory to mention the EEC origin of funding.
7. Encouraging references to quality.

Ireland

- Market developments and related factors

The generally buoyant market situation for dairy markets which prevailed at the end of 1994 continued into the first quarter of 1995. Prices being paid are good in general -- butter and SMP prices in particular have firmed. The strong market situation has also seen stocks reduce significantly.
United Kingdom

- Market developments and related factors

The forecasts are that the UK ended the 1994/95 year over quota. Predicting thresholds this year was particularly difficult because of deregulation of the milk market.

There are several factors which contributed to this:

- The size of the national dairy herd increased - a reverse of the trend seen previously.

- Cows milked particularly well throughout the winter and because of high milk prices farmers were reluctant to "turn the tap" off.

- Since deregulation farmers have been enjoying relatively high milk prices. Prices are on average around 3 p/litre higher now than prior to November 1994.

- Concentrate prices have remained relatively static.

- The combination of high milk prices and static feed prices mean dairy farmers are enjoying good profits and the dairy farming industry is very buoyant.

- The cold spring has checked grass growth.

- Milk yields continue to rise and the market for milk quota is becoming very competitive. Leasing at the start of the quota year was 10-10.5 p/litre and prices have already risen to 12p.

- The situation regarding live exports of calves has made producers look for alternatives at home and generated an interest in UK veal production.

- Adjustment measures and policy developments in the dairy sector

There were no cuts in national milk quota for the year 1995/96. There are currently no plans for an outgoers’ scheme or any other form of inducement for farmers to leave dairying.
NON-OECD COUNTRIES

CZECH REPUBLIC

- Market developments and related factors

Milk production in the Czech Republic was subject to a reduction programme, which has lead to a decline of cow numbers. Notwithstanding the slight increase of performance, milk production volume is becoming stabilised.

Beginning January 1, 1955, milk farm gate prices were increased in the Czech Republic. Consequently, processor and consumer prices grew as well, which has lead to a decline of consumer demand for dairy products, particularly cheese.

- Adjustment measures and policy developments in the dairy sector

On the milk market, regulatory interventions are performed by the State Market Regulation Fund through subsidized exports of dairy products. The interventions are performed based on published and approved guidelines. Basic selection criterion is the export subsidy for dairy products for individual dairies according to their production structure. The subsidies are linked to milk fat and non-fat milk solid content. Individual dairies can take part in the regulation provided that they properly pay the agricultural producers for the delivered milk, and that they do not have debts to the state and the Agricultural and Forestry Support and Guarantee Fund.

Based on the proposal by the Board of the Market Regulation Fund, the Ministry of Finance of the Czech Republic has approved the guaranteed price of 6 crowns per liter of top quality 3.6% fat milk.

In order to deal with milk overproduction, the Government has set a suckling cow premium programme in sub-montainous areas where milk output is less profitable.

The following new tariffs have come into effect as of 1 January 1995 for products imported from the European Union:

- milk and milk cream, non-condensed, no sugar or other sweetener added (Code NC 0401): 29.2 to 34.0 per cent;

- milk and milk cream, condensed, with sugar or other sweeteners added (Code NC 0402): 47.5 to 63.3 per cent;

- buttermilk, curdled milk and cream, yoghurt, kefir, and other fermented or acidified milks and creams, even condensed or with sugar or other sweeteners added or flavoured with fruit or cocoa (Code NC 0403): 29.2 to 30.0 per cent;
- whey, including condensed whey or whey with sugar or other sweeteners added; products made from natural milk components, including whey with sugar or other sweeteners added (Code NC 0404): 27.5 per cent;

- butter and other milk fat (Code NC 0405): 79.3 to 80.1 per cent.

**HUNGARY**

- Market developments and related factors

Due to the draught in the last year, the fodder prices have increased significantly, and so the profitability of the sector has changed unfavourably.

The significant increase of the consumer prices may cause a 1-2 per cent decrease in the consumption of the dairy production in 1995.

**SLOVAK REPUBLIC**

- Adjustment measures and policy developments in the dairy sector

A dairy quota scheme has been introduced in order to stabilise the milk market. The national quota is based on last year’s production level, i.e. 900 million litres. This annual quota is broken down in 4 quarterly quotas as follows:

<table>
<thead>
<tr>
<th>(million litres)</th>
<th></th>
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<tbody>
<tr>
<td>January-March</td>
<td>192</td>
</tr>
<tr>
<td>April-June</td>
<td>254</td>
</tr>
<tr>
<td>July-September</td>
<td>253</td>
</tr>
<tr>
<td>October-December</td>
<td>201</td>
</tr>
</tbody>
</table>

The quota system is linked to a system of guaranteed prices which sets a floor on the sale price from producer to processor/retailer, provided quotas are not exceeded. The basic guaranteed purchasing price is set at SKr 6.70 per litre of milk containing 3.6 per cent fat and 3.2 per cent protein. Depending on the milk quality, a bonus can be added to the basic price. Producers are nevertheless able to exceed their quotas by a maximum of 10 per cent. Beyond these 10 per cent, prices can not be guaranteed. Prices are still guaranteed if the quota is exceeded within the range of 5-10 per cent, but producers are no longer entitled to the price bonus. The quota and price systems are based on an average milk yield of 3 400 litres per cow and are proposed to farmers whose milk output is over 20 000 litres per year.
Table I
Table II
Table III
Table IV
Table VI
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Table VIII
II. MARKET AND TRADE OUTLOOK OF DAIRY PRODUCTS BY THE YEAR 2000*

1. Main assumptions

  a) Economic assumptions

This section reflects the assumptions and conclusions presented in more detail in the OECD publication "The Agricultural Outlook - 1995 to 2000", 1995. The market and trade outlook has been developed through a procedure which begins by drawing together the perspectives of OECD Member countries on future market developments and the evolution of agricultural policy parameters. This is supplemented by information obtained by the Secretariat from a large number of other sources. The OECD’s AGLINK model is then used to integrate the information into consistent projections and to examine the impact of a number of key factors. These results are tested in bilateral exchanges with experts in OECD Member countries and through discussion in the OECD’s Commodity Groups. Expert judgement is applied at all stages of the process.

The agricultural outlook has been prepared against the background of economic growth in the OECD which is steadily gathering strength. Output grew strongly in 1994 in a number of OECD economies especially the United States, Canada, Australia, New Zealand, the United Kingdom, Denmark, Finland and Norway, but was offset to some extent by slow growth in other parts of Western Europe and Japan. Growth in Japan picked up towards the end of 1994 and by mid-1995 all major OECD economies are assumed to be growing strongly. Beyond this period to the end of the decade, economic growth in the OECD is assumed to average around 3 per cent per annum. Unemployment within the OECD appears to have peaked during the first half of 1994 and is now declining slowly. However, it is forecast to remain relatively high by historical standards over the medium term. Inflation is low nearly everywhere throughout the OECD and is assumed to remain low over the period to the year 2000.

Growth in the non-OECD region at a rate of between 4 and 5 per cent per year, is expected to be faster than on average in OECD countries over the medium term. On a per capita basis, however, the gap in economic growth rates between the OECD and non-OECD regions is smaller as population growth in the non OECD countries is generally higher. While some moderation is expected in output growth in China, the Dynamic Asian Economies (DAE’s) are projected to expand at between 6-7 per cent per annum over the medium term. Economic growth is also accelerating in a number of developing countries of South and Central America, but is expected to remain weak in sub-Saharan Africa. A number of countries in Central and Eastern Europe have made visible progress towards output recovery in their transition to market economies. There are indications that the turning point was reached in Poland in 1993, and output growth is expected to gather strength over the medium term in Poland, Hungary and the

* This section is drawn from the OECD publication "The Agricultural Outlook 1995-2000". The contents of this publication and its conclusions are published under the responsibility of the Secretary General and do not necessarily reflect the Member countries’ policies.
Czech Republic, in particular. While inflation is declining in these countries, it remains high by OECD standards. In the Newly Independent States (NIS) of the former Soviet Union, further efforts in economic restructuring will be required to bring about a turnaround in economic performance, with positive growth unlikely to occur before 1996.

As regards exchange rate developments, the US dollar strengthened against western European currencies in 1993 but fell back in 1994. Since 1990, however, the dollar has depreciated steadily against the Japanese yen, and averaged at around 102 yen per US dollar in 1994. This development helped to improve the competitiveness of US agricultural produce on the Japanese market. Against most OECD currencies, the dollar is expected to recover some of the lost ground in 1995. Over the medium term, moreover, the dollar is assumed to weaken against the currencies of many OECD countries other than Japan.

b) Policy assumptions

In general, the commodity projections below are based on the assumption of a continuation of existing or announced agricultural policies in countries over the period to the close of the current decade. In so far as OECD countries are concerned, five policy developments are likely to be of particular importance to the outlook. These include the following:

- The move towards lower support prices and their partial or complete replacement with direct income payments to farmers in OECD countries will continue to lead to lower internal market prices over the medium term. However, levels of total support to agriculture are expected to remain high, and supply control measures will continue to be implemented in many cases to contain surplus production.

- The continued implementation of the reform of the Common Agricultural Policy (CAP) in the European Union is expected to reduce the rate of growth of output, to lead to lower market prices and to stimulate consumption. The main effects are likely to be in the cereals sector, but the livestock industry will also be affected through lower feed costs.

- Land under the US Conservation Reserve Program (CRP), is due to be progressively released from 1996 onwards to the year 2000. Even though the renewal of CRP contracts is currently under discussion, it is assumed that most of the CRP land will become available for cereal production. The additional output from this land, should it come back into production, would restrain price increases for cereals over the medium term.
- The implementation of the Uruguay Round Agreement of April 1994 will progressively have an impact on markets and trade. Even though subsidised exports will be reduced and market access for some commodities will be improved, it is likely that the world price impact of the Agreement will be limited during the forecast period. Nevertheless, moves towards more market oriented policies could be strengthened.

- The implementation of the North American Free Trade Agreement (NAFTA) will ultimately lead to the creation of a free trade zone for agricultural commodities in North America. While the medium term impact will be limited by the long phase-out period of up to 15 years for existing trade barriers, third country suppliers to these markets are likely to be affected in the short term.

2. Market outlook of dairy products

The continuation of quota policies and lower real support prices in many OECD countries will lead to a lower production growth. The implementation of the Uruguay Round Agreement and lower surplus stocks will bring about lower subsidised exports. Consequently, the supply and demand balance will improve and lead to generally higher world prices for dairy products over the medium term.

World prices for dairy products on the increase
Milk production in the OECD area is forecast to increase by about 3 per cent between 1990-93 and 2000, reaching some 250 million tonnes at that point. In non-OECD countries except the NIS, it is forecast to rise by about 12 per cent between 1990-93 and 2000. Because the growth in milk production in the OECD region is projected to slow, while demand for whole milk powder, cheeses and fresh dairy products will continue to increase, a higher proportion of milkfat will be used to produce these products. That means that butter production will decline in all major OECD milk producing countries, except Australia. Total butter production in OECD countries is projected to reach 3.1 million tonnes in 2000, some 8 per cent less than in 1990-93.
As a consequence of the decline in butter output and increased use of skimed milk in other products such as cheeses and fresh dairy products, total production of skimed milk powder (SMP) in OECD countries is forecast to fall by some 30 per cent between 1990-93 and 2000, with the decrease exceeding 50 per cent in the EC and Canada. Demand is also declining world wide, however, and SMP consumption is projected to fall by about 20 per cent between 1990-93 and 2000 in the OECD and the non-OECD regions alike.

Skim milk powder production substantially down in the OECD

Drop in world consumption of skim milk powder
In most OECD countries, cheese consumption is expected to continue to increase with total consumption in the OECD area rising by over 20 per cent between 1990-93 and 2000. With world cheese demand expected to remain buoyant, cheese production will continue to rise in virtually all OECD countries. In the OECD as a whole, the rate of growth of cheese production is expected to accelerate in line with the growth in demand and output is projected to increase by about 20 per cent during this period.

**Further increase in OECD cheese production**

Consumer tastes will continue to favour low-fat products and skimmed milk, and will remain an important factor in dairy markets. But with some growth in consumption in the United States and non-EC Europe offsetting declines elsewhere, butter consumption is projected to change little in the OECD area, dropping by about 2 per cent between 1990-93 and the year 2000.

While SMP support stocks will further decline, those of butter should fall dramatically in the coming years because milk production will be growing more slowly and demand for milk fat for products other than butter will be strong. Hence, government stocks of butter in the EC are expected to fall to under 40 000 tonnes in 2000 compared with 286 000 tonnes during 1990-93 and those in the United States from 189 000 tonnes to less than 50 000 tonnes during the same period.

**Regular fall in OECD skim milk powder stocks**
Fall in OECD butter stocks

Total SMP exports will contract as a result of the sharp drop in subsidised exports from the European Community (total EC exports will be halved between 1990–93 and 2000). Butter exports by OECD countries will also decline, but to a lesser extent; and with production growing faster than consumption in the non-OECD countries, their imports of butter will decline. As regards cheese, however, rising demand and higher prices are expected to stimulate trade amongst OECD countries.

The projected developments in dairy markets should create the context for a modest increase in world prices. In the case of butter, reduced supply should give a stimulus to prices, but that is likely to be largely offset by the continuing weakness of world demand. Not only is demand weak in the OECD area, but imports by non-OECD countries are expected to fall by about 30 per cent between 1990–93 and 2000 mainly as a result of an increase in production and lower NIS imports. As regards SMP, and despite falling world demand, its price is forecast to rise because of the sharp drop expected in production in most OECD countries and reductions in subsidised exports. Cheese prices are also expected to keep climbing in spite of higher production in the OECD area, since consumption will continue to rise rapidly in all OECD countries.

3. Uncertainties

Despite a moderately positive outlook for the medium term development in agricultural commodity markets, a number of uncertainties exist in key areas. Macro economic developments other than those assumed would have an important impact on the outlook. For instance, if the US dollar were to weaken further over the forecast period, this would make US exports more competitive while at the same time limiting the scope for unsubsidized exports by the European Community. The recent devaluation of the Mexican Peso is another case in point, and the ramifications for international trade over the medium term are still unforeseen. Furthermore, as developments in the non-OECD area become an increasingly crucial element in the outlook, so do the uncertainties related to economic and policy developments in these countries. If economic growth is slower than expected in the non-OECD region, demand will be weaker, translating in reduced imports and lower prices than are now projected.
In the post *Uruguay Round* period, policy in OECD Member countries will continue to play a significant role in commodity markets. In this respect, it is important to note that in 1994 about 80 per cent of OECD cereal production was subject to area limitation programmes while some two thirds of milk output was produced under quota schemes. With continued high, supply-inducing support prices, relaxation of controls would necessitate further policy adjustment in the context of subsidised export constraints under the Uruguay Round Agreement. Furthermore, past experience shows that parameters of supply regulating measures are difficult to predict. The levels of dairy quotas and set-aside rates for cereal production will almost certainly be different over the medium term than assumed in the outlook. Therefore, even though they are introduced as a tool to manage supplies, supply controls have brought an element of uncertainty to both agricultural markets and to commodity policies.

Recent agricultural policy developments also constitute an element of uncertainty in the outlook. In general, there has been a tendency in many OECD countries towards lower price support accompanied direct payments. However, to the extent that these direct payments are linked to supply to the extent assumed, future supplies would be larger than expected, necessitating further policy adjustment. Also, since its introduction, CAP reform in the European Community has had a significant impact on cereal yields and feed use, but a degree of uncertainty continues to exist about future trends. The longer term implications of the farm support package recently introduced by Japan have yet to be assessed. Although there is a tendency towards less government involvement in agriculture, these examples underscore the fact that this is an uncertain process.