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The Market for Dairy Products
Situation and Outlook -- Fourth Quarter 1993

A. International Market Developments

According to GATT price data, as reported to the International Dairy Arrangement, world prices for milk powders were generally stronger in the fourth quarter of 1993. Butter prices weakened slightly, in spite of the sales to the ex-Soviet Union (see below); and, the lower end of the price range remained at the GATT minimum level of $1 350 per tonne. Prices for butteroil were slightly lower in the fourth quarter, but nevertheless remained above the minimum level of $1 625/tonne. Prices for Cheddar cheese were also lower, and the upper range of prices fell below the $2 000/tonne level for the first time in 1993.

Table 1. Export prices reported to the GATT International Dairy Arrangement (dollars per tonne, f.o.b.)

<table>
<thead>
<tr>
<th>Product</th>
<th>2nd Qtr. 1993</th>
<th>3rd Qtr. 1993</th>
<th>4th Qtr. 1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skim milk powder</td>
<td>1 650 - 2 000</td>
<td>1 400 - 1 650</td>
<td>1 500 - 1 750</td>
</tr>
<tr>
<td>Whole milk powder</td>
<td>1 575 - 2 000</td>
<td>1 355 - 1 650</td>
<td>1 400 - 1 600</td>
</tr>
<tr>
<td>Butter</td>
<td>1 350 - 1 500</td>
<td>1 350 - 1 550</td>
<td>1 350 - 1 500</td>
</tr>
<tr>
<td>Butteroil</td>
<td>1 625 - 1 800</td>
<td>1 625 - 1 750</td>
<td>1 625 - 1 750</td>
</tr>
<tr>
<td>Cheese (Cheddar)</td>
<td>1 800 - 2 000</td>
<td>1 800 - 2 150</td>
<td>1 800 - 1 950</td>
</tr>
</tbody>
</table>

As of 20/12/93, contracts had been signed to ship a total of 43 227 tonnes of butter to the ex-Soviet Union under the special GATT derogation of 22 June 1993. About 80 per cent of this total was destined specifically for the Russian Federation. Prices ranged from $1 000/tonne to $1 300/tonne. The weighted average price was about $1 175/tonne, compared with the GATT minimum export price of $1 350 per tonne. Participating countries were: Australia, Finland, Hungary, New Zealand and Poland. The largest contract was for 25 000 tonnes, made by New Zealand, for shipment to the Russian Federation at $1 115/tonne. At its meeting of 20/12/93, the IDA extended the derogation until 31/3/94 for the conclusion of sales contracts, and the delivery date was extended until 30/6/94.

B. Developments in National Markets and Policies

Australia

- Market developments and related factors

Review of the 1992/93 dairy year - Production and Utilisation

National milk production in the 1992/93 season ending 30 June (at 7,327 ML) was slightly higher than the revised May 1993 estimate of 7,300 ML. However, the lower than expected milkfat content of milk resulted in a reduction of the all-milk levy in 1992/93.
While 1992/93 butter and SMP production was lower than estimated, WMP production was higher. Cheese production, at around 210,000 tonnes was in line with estimates. The abnormally favourable seasonal conditions in the latter part of 1992/93 was reflected in high levels of manufactured product output in late summer and autumn. As such, the ability to clear this product in 1992/93 was limited.

Faced with the prospect of high year-end butter stocks, most manufacturers adopted aggressive domestic marketing strategies. This, when combined with increased sales of dairy blends, resulted in increased retail sales of butter products. Cheese sales growth was mainly in cheddar and shred types - via both the retail and foodservice sectors. Retail demand was encouraged by relatively aggressive pricing strategies. Domestic market demand growth continues to be dampened by weak domestic economic conditions.

Despite strong efforts to export dairy products in the latter part of 1992/93, exports of several products were below estimates. The ability to maximise exports was limited by shipping space and a weakening export market. Both SMP and casein export volumes were less than expected, with SMP exports around 10,000 tonnes below estimate. In contrast, butter and WMP exports were above expectations - butter exports alone were around 8,000 tonnes higher.

June 30, 1993 stocks were important in that they set a base for 1993/94 export availability. That is, any build-up in stocks is usually reflected in increased exports in the following season. For example, increased early 1993/94 exports of SMP reflects the increased June 30, 1993 stocks of SMP.

- Adjustment measures and policy developments in the dairy sector

As of 3 December 1993 market support rates for dairy products were reduced by the Australian Dairy Corporation. This was implemented because of expected increases in 1993 export volumes.

**Market Support Rates (A$ per tonne): Selected products**

<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>
</tr>
</thead>
<tbody>
<tr>
<td>Butter</td>
<td>$301</td>
<td>$295</td>
</tr>
<tr>
<td>Cheddar</td>
<td>$360</td>
<td>$352</td>
</tr>
<tr>
<td>SMP</td>
<td>$288</td>
<td>$282</td>
</tr>
<tr>
<td>WMP</td>
<td>$305</td>
<td>$298</td>
</tr>
</tbody>
</table>
Federal marketing arrangements for manufactured dairy products were reviewed during 1990-1991. As a result of this, the Commonwealth Government enacted legislation aimed at providing a framework to enable a more productive, internationally competitive and export focussed sector to develop. Detailed information on this was provided in Quarterly Report Number 33, June 1993.

Seasonal conditions, despite flooding in northern Victoria, have been particularly favourable throughout the early part of 1993-94. This has resulted in significant percentage milk production increases. Given relatively static drinking milk consumption, the increased milk production has been diverted to increased manufactured product output.

Although there has been a general lowering in farm gate prices for manufacturing milk, access to lower priced feed grains and supplements has enabled on-going use of supplementary feed.

The improved confidence in the dairy industry has resulted in a slight increase in dairy cow numbers. This has been via both lower culling rates and a higher percentage of young (replacement) stock.

New Zealand

Market developments and related factors

For reasons only partially understood, over the last three years summer weather in New Zealand has been cooler and wetter than the long term average. Winters have been more mild and drier. Grass growth has been exceptionally good and dairy cows have been well nourished during what are generally more difficult periods of balancing grassland feed supplies with cattle nutritional requirements. Milk production exceeded all previous years and there is a strong probability that the 1993/94 will also prove to be a new record level of production. Cumulative milk production from May 1993 to January 1994 was 14 per cent higher than in the same period in 1992/93. Assuming average production in the remainder of the production season (ending 31 May), final production would be some 10 per cent or more, higher than last season. By January, in most dairy production seasons, 75 per cent of total production has been reached, so the probability that the 1993/94 season will be another record season is now strong.

As the beginning of November dry conditions were affecting many dairy farming areas. However widespread heavy rain fell over most of the country in December 1993 and January 1994, sufficient to give dairy farmers the confidence that they will have adequate grass until the start of autumn rains. Bountiful harvests of hay and silage will temper the effects of any later droughts or even difficulties in winter.

Dairy cow numbers at the beginning of the season in 1991/92 were four per cent higher than twelve months before. At the beginning of 1992/93 cow numbers had declined by three per cent. At the beginning of 1993/94 cow numbers were back to the same number as in 1991/92. To some extent the increase this season is sustainable as it results from increased numbers of dairy heifers being raised for milking. However a large part of the additional
cows milked represents older cows whose culling has been deferred because of the extra feed available. A return to more normal conditions will result in a higher culling rate and a check to the expansion, or even decrease in cow numbers.

By January 1994 the peak of production has passed and all dairy companies are able to cope with milk from their suppliers. During October large quantities of milk were diverted from the main dairying district of the Waikato/South Auckland, as the limits of processing capacity there were below that of the peak milk flows. As well as **geographical diversions of heavy supplies**, more milk had to be utilised in the production of less profitable products (butter and casein) owing to limited cheese and wholemilk powder manufacturing capacity.

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

The Dairy Board has made increasingly more pessimistic pronouncements about prospects for returns from sales for the 1993/94 season and the level of the final basic price. The **average farm gate price** for 1993/94 is forecast to be 10 to 15 per cent below that in the previous season with the risk that if international prices weaken further it could be lower.

In October the New Zealand Dairy Board announced an increase in the **advance payment** of the basic price. This was an increase of 24 cents to 477 cents per kg milkfat (or an increase of 14 cents to 274 cents per kg milk solids). In their February 1994 announcement the Board has decided to hold the advance payout at the October level of 477 cents per kg milkfat (i.e. 274 cents per kg milk solids). While in October 1993, the Board was looking toward a final basic price payment of 525 cents per kg milkfat for the season, they were indicating by February 1994 that a final payment of NZ$4.87–NZ$5.04 per kg milkfat (NZ$2.80–NZ$2.90 per kg milk solids) is more likely. The effect on dairy farm incomes from the lower milk price will be tempered by the expected increase in the quantity of milk produced this season.

**Canada**

- **Market developments and related factors**

The **production and consumption trends** for fluid milk declined slightly. As mentioned, the demand for butter has increased from forecast levels. This increase is at the industrial demand level and is in reaction to price incentives. Domestic disappearance for butter is expected to be close to 83 million kilogrammes (Mkg) this dairy year and should remain close to that level in the next dairy year, beginning 1 August. Butter stocks are very low but will be replenished as production increases.

**Cheese production** is still increasing, both for cheddar and specialty cheese. Total domestic disappearance is forecast to be close to 280 Mkg in the current dairy year, and could increase to 286 Mkg in the next year. Demand for specialty cheese in particular continues to increase and is forecast to continue.
Skim milk powder exports are expected to be lower this year, about 14 Mkg. In fact, because of closer requirements between solids-non-fat and butterfat, it is expected that exports of skim milk powder will remain at low levels in the future.

- Adjustment measures and policy developments in the dairy sector

On August 1, 1993, the target price for industrial milk was increased from C$50.36 per hectolitre to C$50.84 per hectolitre. The subsidy was reduced from C$6.03 per hectolitre to C$5.43 per hectolitre. The support price for butter was reduced to C$5.324 per kilogram and the support price for skim milk powder increased to C$3.498 per kilogram. This brings Canadian policies more in line with the trends that are observed in other countries where butter prices have decreased relative to solids-non-fat prices.

Effective August 1, 1993, the Market Sharing Quota (MSQ) was increased by 2 per cent to 41.9 MhL. This increase was mainly due to domestic sales of butter under the Butterfat Utilization Programme, which offers low-cost butter to manufacturers who use butterfat as an ingredient. At the November 1993 latest Canadian Milk Supply Management Committee meeting it was decided to increase total MSQ by a further 2.5 per cent for the 1993/94 dairy year. This increase is in response to a shortage of butter in Canada. Butter stocks are so low that the Canadian Dairy Commission has started to import butter from the United States. It is possible that up to 2 000 tonnes of butter may have to be imported.

The European Union

- Market developments and related factors

In 1993, the dairy herd declined by 600 000 animals to 21.2 million head. Milk production was unchanged from the 1992 level, and deliveries were slightly below the 1992 level. The production and consumption of milk was virtually unchanged from 1992. Cheese output rose slightly, while consumption continued its upward path – rising by 1.8 per cent in 1993. The output of skim milk powder rose by 5 per cent, while the production of condensed milk decreased by 2 per cent.

Ending stocks in 1993 were:

Butter - 207 339 tonnes, of which 160 577 were public and 46 762 were private stocks;

Skim milk powder - 36 951 tonnes, all of which were public.

During the fourth quarter of 1993, the market situation was characterised by relative stability. Market prices for butter and skim milk powder changed only slightly, despite a reduction on institutional prices for both products.
Adjustment measures and policy developments in the dairy sector

At the December meeting of the Council of Ministers of the EU, relevant decisions concerning dairy policies included:

a) a continuation of the current regulations concerning imports of butter from New Zealand – i.e. an annual quota of 51,830 tonnes, with a duty of 33.84 ECU/100 kg.

b) the decision to continue the ban on the usage of BST in the EU through calendar year 1994. In early 1993, the Commission favoured banning BST until the ending of the current quota legislation (31/3/2000). The current decision was made in the light of conducting further research into the question, as well as to some extent monitoring its acceptance by producers and consumers in the United States.

United Kingdom

There have been no additional cuts in national quota for the year 1993/94. In addition, there are no plans for an outgoers scheme or any form of inducement for farmers to leave dairying.

Although there are adequate stocks of grass silage in store to meet requirements, as predicted in the report for the second quarter the quality has proved variable. The adverse weather conditions earlier this year meant that many first cut silages were either delayed or cut and clamped under adverse conditions. As a consequence, the energy content of first cut silage is, on average, 0.5 MJ/kg CDM (Corrected Dry Matter) lower than in 1992. (For a typical 80 cow herd with 6,000 litre/cow average yield and silage fed to appetite, an additional 0.35 tonnes of concentrates will be required to maintain yields at last year’s level).

Results of silage analyses suggest that fermentation quality is also variable, and frequently poor. For first cut silage in particular, ammonia nitrogen (N) contents are high, adversely affecting voluntary forage intake; furthermore, silages with a high ammonia N content are potentially unstable and can deteriorate further in the clamp. A third characteristic emerging from analyses of grass silages is the low crude protein content. For both clamp and big bale silages, crude protein contents are about 15 per cent lower than in 1992 and these silages will require greater attention to protein supplementation to ensure target levels of production are achieved.

The wet Summer provided more or less continuous good grazing conditions for cows and, indeed, in the Autumn there was almost an embarrassment of grass. However, the lack of sunshine hours adversely affected maize growth and this was further exacerbated by the hard frosts and exceptionally cold weather experienced during the late Autumn. As a consequence, quality was lower, with reduced energy, protein and starch levels compared with the previous two years. In those areas of the South and East which provide more optimum conditions for growth, yields, as such, were largely unaffected. However, the popularity of
the crop has led to expansion of its growth into more marginal areas, where yields suffered appreciably. (Note: The increasing popularity of maize and the spread of its growth into less suitable areas is not unrelated to its qualification for area payments as a combinable crop).

In spite of the variable forage quality, milk yields have been maintained since housing and, indeed, on a twelve months rolling basis continue to follow a rising trend. Although less of this milk is being derived from forage, the milk price has increased by around 1.5 pence per litre over the last year whilst average concentrates prices have remained relatively stable. The beneficial effect of this on the milk price is that the concentrates ratio is reflected in the comparative prosperity of the industry.

On the debit side, cow prices have continued at a high level with average prices around £400 per cow higher than last year. These prices have, however, been offset to some extent by higher prices for cull cows and calves. The higher prices for cows have not only been a reflection of the current profitability of milk production but have also been influenced by a belief that quota would not be reached. In the event, the Butterfat Rules will almost certainly apply and there is now every indication that quota will be exceeded. This has had a not unexpected effect on quota prices with some quota being leased in excess of 9 pence per litre.

Many of the dairy companies which propose to source their own milk supplies following the ending of the Milk Marketing Act have now issued contracts and a number of them have indicated the price they propose to pay. However, the referral back of the milk Marketing Board’s proposals and the questions raised by the EC Commission have not only caused some consternation in the industry, but have added to the uncertainty. Various claims are being made about how many producers have signed with whom and, whilst it is clear that a high proportion of dairy farmers are committed to Milk Marque, a significant number of mainly large milk producers are still reserving their position.

United States

Structural adjustment in milk production seemed to accelerate in 1993, even though the causes were mostly long term. Milk cow numbers fell in parts of the Midwest, as more than the usual number of producers quit dairying and few expanded. Meanwhile, production grew more rapidly in the West, as established producers expanded and were joined by new producers. However, structural change was not simply an east-west pattern. Cow numbers held about steady in the Northeast and were down only slightly in southern regions and most of the Midwest.

Decreases in milk cow numbers from a year earlier widened as 1993 progressed. Average milk cow numbers in 1993 will be slightly more than 1 per cent below 1992. Milk per cow in 1993 will total only slightly more than 1 per cent above 1992. Producers have been conservative about boosting concentrate feeding, even though milk-feed price ratios were modestly favorable. Nevertheless, milk per cow was up from the very strong, weather-boosted level of 1992.
The keys to **1994 production** are continued structural changes, feed quality and prices, and bovine somatotropin (BST). Expected lower milk prices probably will keep pressure on weaker producers. Milk cow numbers are expected to be more than 1 per cent below a year earlier throughout 1994. However, the declines may lessen during the year as a more normal share of producers start to expand.

Floods in the Midwest are expected to cause a 5-8 per cent rise in 1994 feed **concentrate costs**. Combined with lower milk prices, higher feed prices are projected to drop the milk-feed price ratio to a relatively low level of less than 1.5, compared with about 1.65 in 1993.

The first **bovine somatotropin** (BST) product was cleared in November by the Food and Drug Administration and will be available for sale in early February. Use of BST will boost the production of treated cows and can lower costs per hundredweight. However, farmers may be somewhat slow to adopt BST. Most farmers are by now aware that use of BST requires very careful management. In addition, possible problems marketing milk from BST-treated cows may cause some producers to hesitate.

**Milk per cow in 1994** is forecast to grow more than 2 per cent, with considerably larger gains by late 1994. This would result in about a 1 per cent rise in milk production for the year. However, all projections will be subject to great uncertainty until the industry’s reaction to BST becomes more evident.

**Producer prices** will average of about $12.80/cwt in 1993, down about 3 per cent from 1992. Milk prices were below a year earlier during the first and third quarters and near a year earlier during second and fourth quarters. Farm milk prices held up surprisingly well in light of the rising surplus of skim solids.

**Commercial stocks** of milkfat have been fairly stable at moderate levels throughout 1993, mostly because of low butter holdings. Milkfat stocks in 1994 may rise slightly, after this year’s holdings proved insufficient for tight second-half cream markets.

Weak sales of **skim solids** pushed commercial stocks to very high midyear levels. Nonfat dry milk holdings were excessive, and cheese inventories were high. Sales of non-fat dry milk to the Government and DEIP exporters have reduced, and will continue to reduce commercial stocks. On November 1, skim milk solids stocks were still relatively large but had been brought down to last year’s level.

**Demand for dairy products** was generally weak in 1993, as the erratic recovery in the economy was not reflected in dairy markets. Although retail dairy prices were relatively favorable, growth in cheese use has been considerably slower than normal, and fluid milk sales have fallen. Commercial use of most other products has been stagnant.

The shifts in 1993 **commercial use** substantially narrowed the gap between the milkfat surplus and the skim solids surplus. Net removals of butter were large during the first half. But, net removals have been negative since
August, when sales back to the industry began. On the other hand, net removals of nonfat dry milk have been substantial throughout 1993. Only small purchases were made, but DEIP removals have been steady. Cheese removals have been small. Commercial in 1993 is expected to firm on the basis of economic growth and favorable dairy prices. Skim-basis sales are expected to stabilize, while disappearance of milkfat is projected to expand 1-2 per cent.

**Intervention purchases** of butter and nonfat dry milk are likely in early 1994. For all of 1993, such purchases of milkfat are projected to decrease by 20-30 per cent, milk equivalent, from 1992’s 4.53 million tonnes. Skim solids removals are expected to rise about 1.36 million tonnes, milk equivalent, from 910 000 tonnes a year earlier. **The 1994 surplus** is projected to be between 2.7 and 3.1 tonnes, milk equivalent, regardless of measure. The surplus of skim solids may be as large as the milkfat surplus for the first time since 1987.

**Turkey**

- **Market developments and related factors**

<table>
<thead>
<tr>
<th>Years</th>
<th>Cattle Population</th>
<th>Milking Cows</th>
<th>Ave. Milk Yield (kg.)</th>
<th>Production (000 Tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>12 466 000</td>
<td>6 102 113</td>
<td>1 310</td>
<td>7 994</td>
</tr>
<tr>
<td>1986</td>
<td>12 713 000</td>
<td>6 271 122</td>
<td>1 297</td>
<td>8 134</td>
</tr>
<tr>
<td>1987</td>
<td>12 713 000</td>
<td>6 246 770</td>
<td>1 298</td>
<td>8 110</td>
</tr>
<tr>
<td>1988</td>
<td>12 562 000</td>
<td>6 269 352</td>
<td>1 300</td>
<td>8 156</td>
</tr>
<tr>
<td>1989</td>
<td>12 173 000</td>
<td>6 153 970</td>
<td>1 295</td>
<td>7 973</td>
</tr>
<tr>
<td>1990</td>
<td>11 377 000</td>
<td>5 892 550</td>
<td>1 353</td>
<td>7 961</td>
</tr>
<tr>
<td>1991</td>
<td>11 973 000</td>
<td>6 119 280</td>
<td>1 408</td>
<td>8 616</td>
</tr>
<tr>
<td>1992</td>
<td>11 951 000</td>
<td>6 070 410</td>
<td>1 435</td>
<td>8 715</td>
</tr>
</tbody>
</table>

*Source:* State Institute of Statistics.
Adjustment measures and policy developments in the dairy sector

Milk purchasing prices for 1993 (Average TL/Lt.)

<table>
<thead>
<tr>
<th>Month</th>
<th>Price (TL/Lt.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>3 000</td>
</tr>
<tr>
<td>February</td>
<td>-</td>
</tr>
<tr>
<td>March</td>
<td>3 191</td>
</tr>
<tr>
<td>April</td>
<td>3 188</td>
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<td>May</td>
<td>3 207</td>
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<tr>
<td>June</td>
<td>3 063</td>
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<tr>
<td>July</td>
<td>3 170</td>
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<tr>
<td>August</td>
<td>3 218</td>
</tr>
<tr>
<td>September</td>
<td>3 425</td>
</tr>
<tr>
<td>October</td>
<td>-</td>
</tr>
<tr>
<td>November</td>
<td>-</td>
</tr>
<tr>
<td>December</td>
<td>-</td>
</tr>
</tbody>
</table>

Annual average 3 180 TL/kg

The milk bonus given per unit of milk delivered to plants with a capacity under 5 000 tons per year is 90 TL/Lt and the figure is 120 TL/Lt for plants with a processing capacity over 5 000 tons per year.

In the light of the above mentioned information it can be said that the milk production has increased by one per cent in 1992 and the decrease in population has been compensated by yield increases of two per cent. Though the year is not over the early estimates for 1993 show that the average price is around 3 180 TL/kg (about US$0.75) and that the additional bonus hasn’t changed yet and is still the same figure as mentioned above.
Table 1
Table 3
Table 4
Table 5
Table 6
Table 7
Table 8