General Distribution **OCDE/GD(96)191**

**THE MARKET OF DAIRY PRODUCTS AND DAIRY POLICIES
IN THE OECD AND OBSERVER COUNTRIES:
DEVELOPMENTS SINCE 1st AUGUST 1995**

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Paris

46609

Document complet disponible sur OLIS dans son format d'origine

Complete document available on OLIS in its original format

Paris, December 1996

THE MARKET OF DAIRY PRODUCTS AND DAIRY POLICIES IN THE OECD AND OBSERVER COUNTRIES: DEVELOPMENTS SINCE 1st AUGUST 1995

This document is issued under the responsibility of the Secretary-General.

Directorate for Food, Agriculture and Fisheries
ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
2, rue André Pascal, 75775 Paris Cedex 16

TABLE OF CONTENTS

CANADA

1. Developments of dairy policies since 1st August 1995

a) Domestic policy

August 1st, 1995

On August 1, 1995, the Canadian Dairy Commission (CDC) revised the target return for industrial to producers from $52.28 to $53.23 per hectolitre of milk, containing 3.6 kilograms of butterfat. The processor margin was set at $7.97 per hectolitre.

The support price for skim milk powder rose from $g3.708 to $3.931 a kilogram. The support price for butter was maintained at $5.324 per kilogram. Consistent with market trends, all of the price increases have been placed on the support price for skim milk powder.

As in the past, a charge of $0.12 per hectolitre is added to the target return to cover costs associated with the 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.

As a result of federal budgetary restraint, the federal subsidy on industrial milk was reduced form $5.43/hL to $4.62/hL effective August 1, 1995.

The market share quota for industrial milk was established at 43.87 MhL for the 1995-96 dairy year (August 1 to July 31).

August 1st, 1996

The CDC revised the target returns for dairy producers and processors from $53.23 to $54.23 per hectolitre of milk, containing 3.6 kilograms of butterfat. The assumed processor margin is set at $8.12 per hectolitre, up from $7.97.

The support price for butter was maintained at $5.324 per kilogram, while the support price for skim milk powder rose from $3.931 to $4.203 a kilogram.

As in the past, a charge of $0.12 per hectolitre is added to the target return to cover costs associated with the 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.

As a result of federal budget restraint, the subsidy payment to producers on industrial milk was reduced from $4.62 to $3.80 per hectolitre.

Special Milk Class Permit System

Also implemented in August 1995, the Special Milk Class Permit System appears to be operating well to date. This System is designed to allow Canadian processors, further processors and exporters to access dairy ingredients at competitive rates.

The following special classes are available:

- Class 5(a) Cheese used as ingredients for further processing.
- Class 5(b) All other dairy products (except cheese) for further processing.
- Class 5(c) Dairy ingredients used as ingredients for the confectionery sector.
- Class 5(d) Planned exports.
- Class 5(e) Dairy products manufactured with over-quota milk (surplus removal).

The volumes of dairy components accessed under the special milk classes are monitored through permits issued by the Canadian Dairy Commission (CDC). The lower-priced milk components available under the new system are sold to processors by their respective provincial milk board or agency. Each eligible processor or exporter is provided with a permit number which must be quoted when ordering dairy ingredients. Program participants must provide the CDC with regular reports on their dairy ingredient purchases and use.

Along with the Special Milk Classes Permit System , a Special Milk Class Pooling Arrangement also came in effect on August 1, 1995 which ensures that returns from Special Milk Classes are equitably shared by all Canadian milk producers. The CDC expects that about 5.8 million hectolitres of milk, excluding surplus removal activities, will be used in the special classes between August 1, 1995 and July 31, 1996, an amount representing about 13 percent of the total Market Sharing Quota.

Surplus Removal Program

The new surplus removal program consists of two operarional elements: a processor-initiated and a CDC-initiated surplus removal. This new approach is designed to ensure that products are not manufactured for unplanned exports when unfulfilled domestic and planned export opportunities exist, and the manufacture of products for planned exports is timed to avoid periods when milk supply has been historically low. The Commission consults with the province of origin before any purchases are made to ensure that domestic needs are being met.

To guide its surplus removal activities, the Commission will chair an advisory group composed of regional representatives of producers, processors and members of their national organizations. The advisory group will be responsible for recommending the opening or closing of the CDC-initiated surplus removal activity.

b) Trade policy

Optional Export Program

The Optional Export Program, implemented in August 1995, is intended to provide additional flexibility in milk production and processing activities by allowing processors, exporters and producers who supply them to take advantage of new export market opportunities without encroaching on existing markets or jeopardizing domestic market supplies.

Under this Program, a milk volume of up to 5 percent of total industrial and fluid quota holdings in a province and up to 10 percent of an individual producer's quota holding can be made available for approved export activities. Each province is responsible for developing the method of price negotiation for milk supplied under this Program, as well as the terms under which milk would be supplied for such projects. Applications are approved by a national Supervisory Committee.

Tariff rate quota (TRQ) administration milk and dairy products

On August 1, 1995, Canada converted its import controls on dairy products to a TRQ system as agreed to under the World Trade Organization (WTO).

i) Butter

The TRQ level is 1,964 tonnes for the marketing year August 1995 to July 1996 and 2,226 tonnes for August 1996 to July 1997. This TRQ increases to 3,274 tonnes by 2000/01.

For 1996, the within quota tariffs are about 5.2 cents/kg for imports from U.S., 5.99 cents/kg for imports from New Zealand, and 23.96 cents/kg on imports from most other countries. The over quota tariff is 342.7 per cent.

ii) Cheese

The TRQ level is 45 million pounds (20,412 tonnes) for the marketing period 1995/96 to 2000/01.

For 1996, the within quota tariff on cheeses imported from the U.S. vary from about 1.3 cents/kg to 1.5 cents/kg while the within quota tariff on cheeses imported from most other countries varies from about 5.4 cents/kg to 6.3 cents/kg. The over quota tariff on all imports is about 275 per cent.

Supplementary import permits may be issued for imports of cheese inputs from the U.S. for the purpose of re-exporting cheese products to the U.S.

iii) Yogurt and ice cream

The TRQ level for yogurt is 332 tonnes (product weight basis) yearly for the period 1995 to 2000, and for ice cream it is about 374 tonnes (product weight basis) in 1996 increasing to 484 tonnes by 2000.

In 1996, for imports from the U.S., the within quota tariff on yogurt and ice cream is about 3 per cent, while for imports from most other countries the within quota tariff on these products is about 12.5 per cent. The over quota tariff for yogurt is about 266 per cent and the over quota tariff for ice cream is about 310 per cent.

iv) Fluid milk and other dairy products

Fluid Milk: The TRQ is 64,500 tonnes yearly for the period 1995 to 2000. For 1996, the within quota tariff is about 3.4 per cent on imports from the U.S. and 14.2 per cent on imports from most other countries. The over quota tariff is about 270 per cent.

Cream (Sterilized and in 6 oz cans):*

The TRQ is 394 tonnes yearly for the marketing period 1995/96 to 2000/01. For 1996, the within quota tariff is about 3.4 per cent on imports from the U.S. and 15.8 per cent on imports from most other countries. The over quota tariff is about 336 per cent.

Concentrated/Condensed Milk/Cream:*

The TRQ is 11.7 tonnes yearly for the period 1995 to 2000. For 1996, the within quota tariff is about 1.3 cents/kg on imports from the U.S. and 5.4 cents/kg on imports from most other countries. The over quota tariff varies from about 285 per cent to 290 per cent.

Powdered Buttermilk:* The TRQ is 908 tonnes yearly for the period 1995 to 2000. For 1996, the within quota tariff is about 1.5 cents/kg on imports from the U.S. and 6.3 cents/kg on imports from most other countries. The over quota tariff is about 233 per cent.

Dry Whey:* The TRQ is 3,198 tonnes yearly for the marketing period 1995/96 to 2000/01. For 1996, the within quota tariff is about 1.5 cents/kg on imports from the U.S. and 6.9 cents/kg on imports from most other countries. The over quota tariff is about 239 per cent.

Other Products of Milk Constituents:* The TRQ is 4,345 tonnes yearly for the period 1995 to 2000. For 1996, the within quota tariff is about 3 per cent on imports from the U.S. and 12.2 per cent on imports from most other countries. The over quota tariff is about 302 per cent.

"Other" Dairy Products (Prepared Mixes):*

The TRQ is 70 tonnes yearly for the period 1995 to 2000. For 1996, the within quota tariff is about 3 per cent on imports from the U.S. and 12.6 per cent on imports from most other countries. The over quota tariff is about 280 per cent.

---

* Importers not importing at least 90% of their allocation will have their allocation reduced proportionately in the next year and this unused portion will be redistributed among other importers.

2) **Developments of the dairy product markets since 1st August 1995**

a) ***Development of the factors which had an impact on the dairy sector and quantitative impacts on production, consumption, trade and prices of the various types of dairy products and short-term outlook.***

1995	Production	Consumption
Fluid milk	27.39 MhL	
Industrial milk and cream	44.64 MhL	
Butter	92.1 Mkg	81.1 Mkg
Cheddar cheese	116.8 Mkg	114.9 Mkg
Specialty cheese	160.2 Mkg	168.2 Mkg
Skim milk powder	70.9 Mkg	28.7 Mkg
Yogourt	95.2 ML	
Cottage cream	24.4 Mkg	
Ice cream	332.8 ML	

Source: Statistics Canada

Retail Prices	1995
Whole milk	$1.33/L
Butter	$2.84/454 G
Processed cheese	$2.52/250 G.
Evaporated milk	$1.03/385 ML
2% milk	$1.29/L

Source: Statistics Canada

Wholesale prices	1995
Skim milk powder	$4.00/kg
Butter	$2.74/454 G
Processed cheese	$3.76/ 500 G
Evaporated milk	$0.91/383 ML
Ice cream	$2.40/L

b) Short term outlook

Forecast 1996	Production	Consumption
Fluid milk	28.0 MhL	
Industrial milk and cream	46.0 MhL	
Butter	92.0 Mkg	81.0 Mkg
Cheddar cheese	117.0 Mkg	115.0 Mkg
Specialty cheese	165.0 Mkg	170.0 Mkg
Skim milk powder	72.0 Mkg	29.0 Mkg
Yogourt	99.0 ML	
Cottage cream	24.0 Mkg	
Ice cream	325.0 ML	

Retail Prices	Forecast 1996
Whole milk	$1.38/L
Butter	$2.84/454 G
Processed cheese	$2.80/250 G.
Evaporated milk	$1.08/385 ML
2% milk	$1.35/L

Wholesale prices	Forecast 1996
Skim milk powder	$4.00/kg
Butter	$2.74/454 G
Processed cheese	$3.76/ 500 G
Evaporated milk	$0.96/383 ML
Ice cream	$2.55/L

UNITED STATES

1. Developments of dairy policies since 1st August 1995

a) Domestic policy

The 1996 Act presents a departure from past dairy policies. The previous method of supporting milk price through government purchases is extended for 3 years, at reduced support levels, and then eliminated. Starting in the year 2000 is a recourse loan program aimed at providing seasonal price stabilization, rather than price support. The provision for a minimum support level for milk of $10.10/ hundredweight is immediately repealed, along with provisions for assessments and for increasing and decreasing support levels over time based on the estimated level of government surplus removal. The farm bill has no effect on current provisions for import restrictions on dairy products allowed under the Uruguay Round of GATT--provisions that insulate the domestic market from foreign competition.

The farm bill for the first time requires a major restructuring of Federal Milk Marketing Orders (FMMO), a regional system of pricing established pursuant to the Agricultural Marketing Act of the 1937.

The Milk Price Support Program

The 1996 Act states that the Secretary shall support the price of milk through the purchase of cheese, butter, and nonfat dry milk at the following rates per hundredweight for milk containing 3.67 per cent butterfat (calendar year basis):

Year	Dol./cwt.
1996	10.35
1997	10.20
1998	10.05
1999	9.90
2000 and beyond	Not applicable

There are no provisions in the 1996 Act to adjust these support levels over time. And there are no provisions at all for government purchases to support milk prices after 1999. The prior program, as extended by the 1990 Act, required support prices to be increased or decreased if the estimated level of government removals of dairy products (“total solids basis”) reached certain trigger levels.

Assessments--Assessments are eliminated under the 1996 Act (related refunds for 1995 and 1996 will be made). The 1990 and 1993 OmnibuseBudget Reconciliation Acts mandated milk marketing assessments to help pay the cost of the price support program. The budget reconciliation assessment for 1996 had been established at 10 cents per hundredweight. Producers who did not increase milk marketings over the previous-year level would receive a refund of the assessment, and an additional assessment would be imposed by the CCC to recapture the cost of these refunds.

Butter and Nonfat Dry Milk and Cheese Provisions--The 1996 Act gives the Secretary flexibility to set butter and nonfat dry milk support prices at levels that will minimize the level of expenditures by the CCC and achieve other appropriate objectives. The purchase prices for these products are set such that a weighted average of these product prices (based on the yield from 100 lbs. of milk), less processing costs ("make allowance") will equal the milk support price. The previous law was more restrictive than the 1996 Act about the support levels for dairy products. The level of butter price, under the prior law, could be no higher than $.65 per pound and the level of powder prices could be no lower than $1.034.

Recourse Loan Program for Commercial Processors of Dairy Products.

Recourse loans will be available to commercial processors of dairy products to promote within- year price stability. The 1996 Act states that beginning January 1, 2000, the Secretary shall make recourse loans available to commercial processors to assist them in the management of inventories through temporary storage of eligible dairy products. Funds and authorities of the Commodity Credit Corporation shall be used to carry out the program. The rate of interest charged participants under this program shall not be less than the rate of interest charged the Commodity Credit Corporation (CCC) by the United States Treasury.

The loan rate for dairy products will be established at a milk equivalent value of $9.90 per hundredweight (3.67 percent butterfat milk). The eligible products are cheddar cheese, butter, and nonfat dry milk, the same as for the price support program. The length of the loan contracts may not extend beyond the end of the fiscal year. However, the Secretary has the discretion to extend the loan for a period not to exceed the end of the next fiscal year.

Consolidation and Reform of Federal Milk Marketing Orders.

The 1996 Act modifies the Federal Milk Marketing Order (FMMO) system that is used to set regional prices of milk used for fluid milk. FMMO's is , autorized by the Agricultural Marketing Agreement Act of 1937 regulates the minimum prices paid to dairy farmers by handlers of Grade A milk in specified marketing areas. Milk is classified according to use (classified pricing). The order determines the minimum prices that handlers in the marketing area must pay for different classes of milk. Producers then receive an average (blend) price for all the milk marketed in the marketing area. Class prices in most cases are based on the average price paid for manufacturing grade milk in Minnesota and Wisconsin updated by a product price formula -- the basic formula price. Predetermined FMMO class I price differentials for each order are added to the basic formula to determine the class I price. Class I is milk used in perishable fluid prices.

The 1996 Act mandates that the Agricultural Marketing Service (AMS) is to: (1) consolidate the number of orders from the present 33 orders to not less than 10 nor more than 14 orders; (2) allow the California state order to enter the FMMO system as a separate order if the producers in California choose to enter the Federal system; (3) use the informal notice and comment rulemaking process to implement the changes in the FMMO system; (4) announce the specific proposed amendments to the FMMO system within 2 years of the enactment of the Act, (5) implement final amendments to the FMMO system within 3 years of the passage of the Act; or by April 4, 1999 and (6) the secretary submit a report to Congress by April 1, 1997 on the progress being made in making the changes to the system, along with recommendations for further changes.

As part of the reform and consolidation of the FMMO system , the Secretary is also authorized to implement : (1) the use of utilization rates and multiple basing points for the pricing of fluid milk, and (2) the use of uniform multiple component pricing when developing a replacement for the basic formula price of pricing milk in federal order markets.

Multiple basing points--Under the 1996 Act, the Secretary may establish multiple basing points for determing class I prices in different areas. Class I differentials vary across the country, being lower in the surplus production areas of the upper midwest and higher in the deficit production areas of the south. Over time, other areas besides the upper midwest have expanded production and could now be classified as surplus producing areas. The 1996 Act specifically forbids the Secretary from using the class I differentials mandated in the 1985 Farm Bill.

Rule making process/timing--Unlike previous changes in orders where the formal rulemaking process has been used to promulgate or ammend federal orders, informal rulemaking can now be used. This approach provided for the issuance of a proposed rule by AMS, a period of time for the filing of comments by interesed parties, and the issuance of a final rule by the Secretary. Typically, informal rules do not require a referendum, but this proceeding will require referendum to determine producer appoval of the new orders. AMS has 2 years from the date of the enactment to put forth a proposal and another year to implement the changes. If the changes are challenged in court and a court order stops the reform, additional time is allowed to make the changes . If the reforms are not completed in the specified period, the Secretary may not collect assessments used to pay for the order operations until the consolidation is completed.

Effect on Fluid Milk Standards in State of California

The 1996 Act allows California to maintain their different standards for fluid milk products in terms of fat and nonfat components. At present , California requires that milk sold in California have more nonfat solids in fluid milk than is required in other parts of the country, Milk directly from a cow in the United States averages about 3.67 percent fat. Whole fluid milk as sold in the stores contains a minimum 3.25 percent fat. 2-percent milk and 1-percent milk are aptly named, and skim milk is effectively less than 0.5 percent fat. California requires fluid processors to increase the amount of nonfat solids in milk, so that products are standardized seasonally and amoung processors.

Milk Manufacturing Marketing Adjustment

This provision sets the manufacturing, or “make” allowance for butter and nonfat dry milk and cheese at not more than $1.65 per hundredweight for butter and nonfat dry milk and not more than $1.80 per hundredweight for cheese, for any state participating in the Federal support program. California, under its order system has provided a higher make allowance to processors than specified by the CCC. The effect, some have contented was to widen the processor margin and give a lower price to milk producers. The 1990 Farm bill (Section 102) contained provisions which addressed state make allowances although there were wide divergences of opinion in the significance of the 1990 language. That debate has ended as Section 102 was repealed by the 1996 Act.

Promotion

This section authorizes the continued collection of the fluid milk promotion assessment through 2000. This program pays for generic advertising for fluid milk products.

Northeast Interstate Dairy Compact

In this section of the law, Congress provided consent to the Northeast Interstate Dairy Compact based on finding by the Secretary of a “compelling public interest” in the Compact region. This compact has been agreed to by the states of Maine, New Hampshire, Vermont, Massachusetts, Connecticut, and Rhode Island. The compact would allow these states to place an additional over order charge on Class I milk marketed in the compact region. The Class I price under the compact could be set at a maximum of $1.50 a gallon increased by the rate of inflation since 1990. In 1995 the level of the Class I price maximum under the compact could have been around $20.00 a hundredweight or about $5.00 over the New England Federal order Class I price.

The compact is in place until the completion of the FMMO consolidation and reform. The states of New York, New Jersey, Delaware, Pennsylvania, Maryland, and Virginia may join the compact if they are contiguous upon entry to a participating state and if Congress consents. The compact must compensate the CCC for any additional costs CCC incurs that result if the rate of increase in milk production in the Compact region exceeds the national average rate of increase in milk production. The compact can not limit any movement of milk into the compact area. Further, any fluid milk that is sold in the compact area from noncampact areas will receive the same price, as if it had been produced in one of the compact states.

b) Trade policy

Dairy Export Incentive Program

The Dairy Export Incentive Program (DEIP) is extended to 2002 in the new Farm Bill. This section of the law also requires the Secretary to maximize the amount of DEIP allowable under the WTO agreement.

Authority to Assist in Establishment and Maintenance of One or More Export Trading Companies.

This section allows the Secretary to assist in the establishment of one or more export trading companies under the Export Trading Company Act of 1982. The organization or organizations are to be designed to develop export markets for the US dairy products.

Standby Authority to Indicate Entity Best Suited to Provide International Market Development and Export Services

The Secretary has the authority to indicate the best entity or entitiessuited to assist the US dairy industry in the development of international markets. The Secretary may make this designation provided that (1) the industry has not established a trading company under the Export Trading Company Act of 1982 on or before June 30, 1997 and (2) U.S. exports during the 12 month period preceding July 1, 1998 do not exceed the dairy product exports in the 12 months ending July 1, 1997 by 1.5 million pounds total solids basis. The Secretary also is required to identify sources of funding. The life of this section is from July 1, 1997 to September 30, 2000.

Promotion of United States Dairy Products in International Markets Through Dairy Promotion Program

This section allows the Dairy Board to expend funds in the promotion of dairy products overseas. The life of this program is for each of the fiscal years 1997 through 2001.

2. Developments of the dairy product markets since 1st August 1995.

Strong cheese demand, good domestic use of butter and nonfat dry milk, and butter export agreements made last winter resulted in sharply higher milk and dairy product prices this spring, as milk production dipped below a year earlier. Prices probably will be fairly strong during the rest of 1996, even though a downward adjustment is expected this summer. Wholesale prices may be very unsettled in coming months, particularly for butter.

Farm milk prices are projected to rise about $1.50 per cwt in 1996. Autumn increases from a year earlier are not expected to match the $2 of spring and summer but will be substantial. The recent elimination of the producer assessment for deficit reduction will further raise the effective price to producers.

The National Animal Health Monitoring Systems survey by USDA showed that only 10 percent of milk cows were on a bST regimen in early 1996, considerably fewer than the number thought to be using bST in early 1995. Although all bST data must be used with caution, high feed prices and feed availability concerns probably have affected bST use. A sizable share of producers apparently are unsure whether bST use is profitable on their operations under normal feed conditions and may be particularly unwilling to take the risk under current conditions. Use of bST may recover some this autumn when conditions stabilize somewhat.

Higher milk prices are projected to easily outpace the 1996 increase in costs of grain and other concentrates. Higher returns are expected to hold year-to-year declines in milk cow numbers to about 1 percent, even though high alfalfa hay prices in the West have slowed expansion there. High grain prices and availability concerns probably will have a greater effect on milk per cow. Producers will continue to be conservative about concentrate feeding and cautious in their use of bovine somatotropin (bST). Milk per cow in 1996 is expected to rise only slightly more than 1 percent on a daily average basis, even though second-half 1995 was weakened by weather.

Demand for dairy products was strong in early 1996, as sales of most major dairy products grew despite higher prices. Economic expansion generated higher consumer incomes, and consumers were more willing to spend on dairy products than they were during much of 1995.

January-April commercial use of cheese rose, continuing the relatively strong sales of late 1995. Butter sales were moderately above a year earlier, as available supplies were readily absorbed by domestic users and exports. Commercial use of nonfat dry milk jumped. However, most of the strength in powder sales probably resulted from larger use of nonfat dry milk in cheese production.

Fluid milk sales were up about 1 percent from January-April 1995. However, continued expansion is far from certain. In recent years, fluid sales have been erratic and tending to weakness. Although declines in whole milk sales have been relatively small, gains in sales of 1-percent and skim milk have not consistently offset the whole milk decrease and the sometimes large decline in 2-percent sales.

Commercial use is projected to rise about 1 percent in 1996, on either a milkfat or skim solids basis. Despite some possibly slower growth, general economic conditions are expected to provide strength.

Milk prices in 1997 are projected to decline 3 to 6 percent. Domestic demand is not expected to quite keep pace with supply, and lower international butter prices may reduce domestic milkfat values. Even so, 1997 prices are projected to stay well above the 1990-95 average.

Spring dairy product disappearance probably had particularly large gains as good underlying movement was boosted by pipeline swelling. Second-half increases will be tempered by reduction of pipeline holdings and response to recent price jumps. Commercial use in 1997 is projected to grow 1-2 percent, aided by moderating prices.

Tight domestic markets and weakening international markets will result in smaller 1996 exports. New agreements for commercial butter exports are highly unlikely until near yearend. Subsidized exports of dry milks and cheese will continue during the rest of 1996, but volumes may be modest.

Exports and imports of dairy products in 1996 probably will be smaller than in 1995. Business under the DEIP has been slow in recent months and will not reach the GATT limits during the current restriction year (July 1995-June 1996). Although business should pick up during the second half of 1996, buyers show little sign of aggressively seeking DEIP contracts, and supply commitments may be difficult to find in light of tight domestic markets.

New deals for commercial exports of butter to be shipped during 1996 are unlikely. Current domestic prices probably would have to fall by almost half before U.S. butter would again be competitive in international markets. Some butter may still be shipped under earlier agreements, but current prices provide large incentives to sell that butter on the U.S. market and fill the international commitment from other countries. Commercial butter exports are not expected to reach the 30,000 tons estimated to have been exported without subsidy in 1995.

Contracts already accepted for 1996 exports of nonfat dry milk under DEIP equal only one-third of 1995 DEIP exports. Activity has been particularly slow since April. Eroding international prices have sharply reduced buyer interest. Buyer interest will pick up this summer, but domestic supply commitments will be difficult to obtain as long as internal markets are tight. Small sales will continue and probably will pick up with the approach of autumn. However, large sales for delivery before winter may be limited. Contracts for DEIP export of dry whole milk may be down even more because of the very tight domestic milkfat markets.

January-April imports were substantially below a year earlier, but tight U.S. markets may quickly change the import pattern. Early 1996 cheese imports were down because U.S. prices were not particularly attractive for GATT-limited international cheese supplies. Meanwhile, imports of most other products were near the moderate 1995 levels. U.S. milkfat markets were unattractive and returns on imports of skim solids were relatively modest.

Imports this summer probably will move ahead of a year earlier. Sharply higher domestic prices should attract more imports, particularly with international markets weakening. In addition, importers probably will fill their licenses earlier in the year than normally to take advantage of tight summer markets.

		1995	**1996**
Milk Cows	000 head	9461	9365
Milk Production	mil lbs	155644	156419
Commercial Use			
Fat Basis	mil lbs	155022	156976
Nonfat Basis	mil lbs	153758	156141
Net Removals			
Fat Basis	mil lbs	2148	218
Nonfat Basis	mil lbs	4445	2000
Product Production			
Cheese	mil lbs	6940.2	7252.3
Butter	mil lbs	1260.7	1190.5
Nonfat Dry Milk	mil lbs	1233.8	1107.5
Milk Prices			
All Milk	$/cwt	12.74	14.25

MEXICO

1. Developments of livestock policies since 1st August 1995

On 31 October 1995, the federal government launched the Programa Alianza para el Campo (Rural Alliance Programme), which includes the following measures where livestock is concerned:

- Capital investment support - Through its PRODUCE programme, the federal government will subsidise up to 40 per cent of livestock farmers’ expenditure on pasture sowing and the purchase of electric fencing, watering troughs and windmills, the amount of the subsidy depending on whether PROCAMPO is available.
- Milk programme - This is aimed at increasing milk production in milk-producing areas by using available technological limits. Subsidies will be granted for the purchase of materials for the construction or rehabilitation of basic infrastructure and specialised equipment.
- Establishment of grazing land - The aim here is to improve the technological standard of dairy farms, by producing and using fodder, controlling rough grazing and favouring ecological equilibrium.
- Better cattle - Through this programme, which is intended as a means of raising the genetic quality and productivity of cattle stock, the federal and state governments will subsidise the purchase of stud animals of different races of cattle and artificial insemination.
- Animal health - This programme will be implemented by local health boards, chaired by the producers, with funds supplied by federal and state governments and producers. Campaigns against bovine tuberculosis, paralytic bovine rabies and tick control will be heavily promoted.
- Training and advisory services - The strategy here is to overcome constraints in terms of technology, market access and financing, while improving dairy farmers’ managerial and organisational skills. Technical assistance will be backed up by veterinarians and specialised consultancies. The financing structure will depend on the region.
- Equipment and rural development - This is aimed at promoting production and productivity through the financing of improved technologies, capital investments and the development of human resources, with a view to assisting genetic improvement, the establishment and management of pastures and family dairy farming.

The various programmes which are included in the Alianza para el Campo programme are being implemented through agreements with state governments, in the framework of the federalisation of the Secretariat for Agriculture, Livestock and Rural Development.

2. Developments of the dairy product markets since 1st August 1995

Production

According to the Centro de Estadística Agropecuaria (Livestock Statistics Centre), the production of milk in Mexico in 1995 was 7 398 696 thousand litres, an increase of 1.07 per cent over 1994.

National cattle milk production 1994-1995
('000 litres)

	1994	1995	Variation en %
January	520 497	521 759	0.24
February	513 111	529 750	3.24
March	522 946	540 422	3.34
April	523 955	536 111	2.32
May	575 359	579 838	0.26
June	602 579	614 154	1.92
July	676 115	635 133	-6.06
August	760 085	719 545	-5.33
September	739 871	740 316	0.05
October	705 791	704 510	-0.16
November	597 914	654 126	9.40
December	578 990	622 935	7.59
TOTAL	7 320 213	7 398 598	1.07

Source: Centro de Estadística Agropecuaria, SAGAR

According to the Centro de Estadística Agropecuaria, the provisional production figure in May 1996 was 2 875 822 thousand litres, representing an increase of 6.20 per cent compared with the same period of the previous year. The estimate for the year as a whole is 7 837 880 thousand litres, 5.93 per cent more than a year earlier.

Production January-May 1995-1996
('000 litres)

Month	1995	1996	Variation in %
January	521 759	564 897	8.27
February	529 750	565 186	6.69
March	540 422	559 292	3.49
April	536 111	582 038	8.57
May	579 838	604 409	4.24
Total	2 707 880	2 875 822	6.20

Source: Centro de Estadística Agropecuaria

The main milk producing states in May 1996 were Jalisco, Durango, Coahuila, Guanajuato, Veracruz, Chihuahua and Mexico, which together accounted for 62.54 per cent of domestic production, i.e. 3 090 649 thousand litres.

Cumulative production in May 1996 of the main producer states (1996)
('000 litres)

State	Production	Proportion (percentage)
Jalisco	475 039	16.52
Durango	290 334	10.10
Coahuila	265 135	9.22
Guanajuato	250 210	8.70
Chihuahua	199 250	5.91
Veracruz	170 023	5.93
Mexico	148 596	5.17
Subtotal	1 798 587	62.54
Other	1 077 236	37.46
Total	2 875 622	100.0

Source: Centro de Información Agropecuaria.

The increase in production over the year before was due to the relative improvement in prices paid to producers and to the rise in the price of imports as a result of rising international powdered milk prices and the fall in the exchange rate of the peso against the dollar.

One of the main problems of milk producers is the renewal and expansion of herds. The efforts of the federal government and producers have concentrated on improving productivity through support programmes, essentially designed to maintain and increase dairy herds, to consolidate existing regional milk-producing areas, to stimulate dual-purpose stockbreeding in tropical areas and to support family dairy farming, all within the framework of the Alianza para el Campo programme.

Producer prices

The local price of liquid milk is determined by supply and demand for the product in the market and there is currently no policy on the part of the government to intervene.

According to the semi-public concern Leche Industrializada CONASUPO S.A. (LICONSA), which is in charge of social milk supplies in the country, the average price paid by the concern to producers in 1995 was 1.25 pesos per litre. The price rose steadily throughout the year, from 0.90 pesos per litre in January to 1.40 pesos in December, a rise of 55.56 per cent. The largest increases in the year occurred in February, April, September, October and November.

Compared with the 1994 average price, the increase in the 1995 average price was 43.83 per cent.

In areas where LICONSA collects fresh milk, its prices constitute a support level. It is currently paying a floor price of 1.80 pesos per litres.

Local purchase price for fresh milk paid by LICONSA in 1995
(Pesos per litre)

Month	1995	1996
January	0.90	1.40
February	1.05	1.62
March	1.05	1.62
April	1.30	1.80
May	1.30	1.80
June	1.30	1.80
July	1.30	
August	1.30	
September	1.33	
October	1.40	
November	1.40	

Although milk prices to producers are slow to adjust, an acceptable profit margin has been maintained. One of the factors explaining the relative improvement in prices paid in the countryside is that private enterprises processing fresh milk in different parts of the country have put pressure on demand in the main producing areas, thus stimulating price competition. Private enterprises have paid better prices in volume and quality terms in order to secure supplies, while national production continues to be more competitive than purchases from abroad.

Prices to the consumer

In 1995, the consumer price of pasteurised milk in one-litre packs rose twice, by 6.8 per cent in February and by 17.0 per cent in April.

In 1996, pressures on milk production costs, particularly arising from imported inputs (Tetra-packs, plastics) led to an increase of 30.9 per cent per litre. At 18 March 1996, the price was 3.60 pesos.

Changes in consumer price index and pasteurized milk prices
(Base: March 1995)

	PRICE (Pesos)	MILK PRICE INDEX	PRICE INDEX
January 95	2.20	93.62	90.59
February	2.35	100.00	94.43
March	2.35	100.00	100.00
April	2.55	108.51	107.96
May	2.75	117.02	112.50
June	2.75	117.02	116.09
July	2.75	117.02	118.37
August	2.75	117.02	120.40
September	2.75	117.02	122.85
October	2.75	117.02	125.38
November	2.75	117.02	128.52
December	2.75	117.02	132.88
January 96	2.75	117.02	137.44
February	2.75	117.02	140.59
March	3.60	153.19	143.62

Source: Based on BANXICO and SECOFI data.

Milk product industry

According to the INEGI monthly industrial survey, the milk products and milk derivatives industry, after growing continuously until 1994, declined in 1995 as a result of a shrinking domestic market.

Industrial production of milk products
(tonnes)

PRODUCT	1994	1995	Percentage change
Pasteurised and homogenised milk	1 827 157	1 770 388	(3.10)
Pasteurised milk	133 413	146 448	9.77
Ultrapasteurised milk	666 684	649 155	(2.62)
Rehydrated milk	738 956	725 870	(1.77)
Total liquid milk 1/	**3 366 210**	**3 291 861**	**(2.20)**
Whole milk powder	130 075	104 708	(19.50)
For nursing infants	26 763	26 350	(1.64)
Total milk powder	**155 638**	**131 056**	**(16.44)**
Cream and butterfat	30 184	30 904	2.38
Yoghurt	23 688	20 834	(12.04)
Yellow cheese	15 084	15 978	5.93
Chihuahua cheese	10 790	8 767	(18.75)
Double cream cheese	14 637	12 179	(16.79)
Fresh	44 088	41 330	(6.25)
Manchego	14 842	14 513	(2.22)
Oaxaca	9 993	11 762	17.70
Panela	8 881	8 362	(5.84)
Natural milk cream	27 747	23 119	(16.67)
Cheese derivatives	118 316	112 891	(4.58)
Butter	14 410	16 205	5.62
Natural Bulgarian milk	23 391	26 128	11.70
Bulgarian milk with fruit	108 036	112 892	8.48
Total other products	**462 086**	**454 884**	**(1.56)**

Source: Monthly industrial survey, INEGI.
1/ '000 litres.

In 1995, the trends for the industrial production of the main milk products were as follows:

- Liquid milk in general fell by 2.20 per cent. The volume of pasteurised and homogenised milk fell by 56 769 thousand litres, or 3.10 per cent, compared with 1994. This item accounts for 53.78 per cent of total liquid milk production.
- As far as milk powder production was concerned, the production of whole milk fell by 19.50 per cent, while milk for nursing infants remained roughly constant.
- For other milk products, the main falls occurred in the production of Chihuahua cheeses (18.7 per cent); double cream cheese (16.7 per cent); natural milk cream (16.6 per cent) and yoghurt (12.04 per cent), while the production of Oaxaca cheese and Bulgarian milk increased by 17.7 per cent and 11.7 per cent respectively.

Consumption

The consumption of milk products in Mexico increased continuously until 1994. From 1995 onwards, however, falling consumer incomes led to a generalised drop in demand for milk products and a more marked drop in demand for products of foreign origin as a result of devaluation.

Apparent national milk product consumption (tonnes)

Item	1994	1995	Change 1995/94
National production			
Liquid milk	2 223 170	2 177 258	- 2.07
Milk powder	100 975	85 375	-15.45
Evaporated milk	98 927	87 515	-11.54
Condensed milk	39 401	37 551	- 4.70
Butter	7 574	6 412	-15.34
Cheese	7 181	5 589	-22.17
Imports			
Liquid milk	104 011	44 260	-57.45
Evaporated milk	362	154	-59.69
Condensed milk	2 434	179	-92.65
Butter	35 852	20 016	-44.17
Cheese	35 380	16 272	-54.01
Exports			
Liquid milk	65	652	903.08
Milk powder	4 311	982	-77.22
Evaporated milk	1 070	721	-32.62
Condensed milk	15	955	6 265.67
Butter	0	206	
Cheese	15	33	108.25
APPARENT DOMESTIC CONSUMPTION			
Liquid milk	2 327 116	2 220 868	-4.67
Milk powder	95 664	84 391	-12.70
Evaporated milk	98 239	88 948	-11.49
Condensed milk	41 820	36 775	-12.08
Butter	43 428	26 221	-39.62
Cheese	42 545	21 829	-48.69

Source: Based on data of the monthly industrial survey (INEGI), 1990-1995, Centro de Estadística Agropecuaria, SAGAR.

Consumption of liquid milk in 1995 continued to be greater than national production, with the result at the Compañia Nacional de Subsistencias Populares [National Agency for Staple Foodstuffs] (CONASUPO) continued its policy of supplementing supply by purchasing on the international market.

Supply

CONASUPO continued to auction imported milk powder in order to guarantee supply to the milk processing industry and to social programmes.

At the auctions, the sale price per tonne of imported milk powder is determined by the international price and import costs.

The price per tonne of imported milk powder fluctuated primarily as a result of variations in the peso-dollar exchange rate.

Milk powder sales to industry at CONASUPO auctions
1995-1996

AUCTION NUMBER	CONSUMPTION PERIOD	VOLUME (Tonnes)			PRICE BASE
		SUPPLY (A)	DEMAND (B)	ALLOCATED (C)	
VLP-010/94	JAN-FEB/95	8 051.00	605.00	605.00	7 000.00
VLPTLC-01/95	JAN-FEB/95	8 052.00	7 348.00	7 346.00	6 742.60
VLP-001/95	MARCH	7 000.00	10 392.00	7 000.00	9 700.00
VLP-002/95	APRIL	8 436.00	7 245.40	7 245.40	13 572.00
VLP-003/95	MAY	7 195.00	1 032.00	1 032.00	15 378.87
VLP-004/95	JUNE	6 594.00	4 586.00	4 585.00	13 458.82
VLP-005/95	JULY	5 401.00	2 358.80	2 358.60	14 023.64
VLP-006/95	AUGUST	4 876.00	3 767.00	3 767.00	13 867.74
VLP-007/95	SEPTEMBER	5 483.00	4 115.80	4 116.60	13 587.28
VLP-008/95	OCTOBER	6 407.00	6 675.00	6 407.00	13 891.92
VLP-009/95	NOVEMBER	6 848.00	5 923.98	5 923.98	15 823.08
VLP-010/95	DECEMBER	7 492.00	5 929.08	5 928.98	18 877.18
VLP-011/95	JANUARY 96	7 517.00	6 239.60	6 239.60	19 391.95
VLP-001/96	FEBRUARY	7 461.00	5 727.00	5 727.00	19 320.19
VLP-002/96	MARCH	7 294.00	6 453.00	6 453.00	18 810.38
VLP-003/96	APRIL	7 107.00	3 184.00	3 184.00	18 648.01
VLP-004/96	MAY	6 659.00	3 553.50	3 553.50	18 560.60

Source: CONASUPO.

External trade

i) Imports

The imports of all products fell in 1995. The most marked falls occurred in condensed milk (92.64 per cent), yoghurt (74.06 per cent), evaporated milk (59.79 per cent) and liquid milk (57.45 per cent). Milk powder showed the least change in import volume.

Imports of milk and milk products 1994-1995
(Tonnes)

PRODUCT	1994	1995	Change 1995/94
	VOLUME	VOLUME	percentage
Milk powder	160 112.8	134 632.3	(15.91)
Whey and buttermilk	63 901.7	47 892.1	(25.05)
Liquid milk	104 010.8	44 259.6	(37.45)
Butter	35 851.8	20 014.6	(44.17)
Cheese	35 379.8	16 271.9	(54.07)
Yoghurt	5 582.6	1 448.1	(74.06)
Condensed milk	2 433.6	179.0	(92.64)
Evaporated milk	381.7	153.5	(59.79)

Source: Based on SICMEX data.

According to the SICM system, imports of milk products in the period January to March 1996 varied substantially according to whether products were for end or for intermediate use.

End-use products such as condensed milk, yoghurt and cheeses fell by 88.92 per cent, 74.69 per cent and 19.24 per cent respectively, owing to the recession and the high price of these products compared to those produced in Mexico. Only pre-packed liquid milk, which is marketed mainly in the border states, showed a rise in imported volume (37.19 per cent).

Imports of the principal items for intermediate use rose significantly, milk powder by 182.64 per cent and whey and buttermilk by 49.98 per cent.

First quarter imports of milk products by volume - 1994-1995
(Tonnes)

PRODUCT	JAN-MAR 1994	JAN-MAR 1995	JAN-MAR 1996	change 1995/96
Pre-packed liquid milk	20 402.4	10 457.5	14 346.4	37.19
Milk powder	45 943.3	20 483.8	57 896.0	182.64
Evaporated milk	81.6	42.6	66.6	55.96
Condensed milk	1 201.1	101.2	11.2	-88.92
Yoghurt	1 485.1	609.3	154.2	-74.69
Whey and buttermilk	13 678.4	10 220.8	15 329.1	49.98
Butter and other fats	5 270.1	5 604.8	5 099.3	-9.02
Cheeses	7 492.9	4 927.6	3 979.6	-19.24

Source: SICM.

i) Exports

Exports in the period 1994-1995 generally rose, especially those of products such as butter or condensed and evaporated milk, where the rises were unprecedented, due to the fall in Mexican milk product prices on the world market. Exports of liquid milk, whey/buttermilk and cheeses also rose substantially.

On the other hand, milk powder and exports of cream fell by 77.23 and 32.62 per cent respectively.

Exports of milk and milk products 1994-1995
(Tonnes)

PRODUCT	1994	1995	CHANGE 1995/94
	VOLUME	VOLUME	PERCENTAGE
Milk powder	4 311 007	981 513	(77.23)
Condensed and evaporated milk	15 209	954 568	6 176.34
Milk, cream, etc.	1 069 503	720 641	(32.62)
Liquid milk	65 138	652 426	901.64
Butter and other fats	201	206 318	102 544.76
Whey and buttermilk	72 411	164 193	128.75
Cheese	16 887	32 687	105.75
Yoghurt	2 556	3 487	30.53

Source: Based on SICMEX data.

In the first quarter of 1996, exports of pre-packed liquid milk and condensed milk rose substantially, offsetting the decline in the exports of other milk derivatives, which in the same period of 1995 were due to changes in the exchange rate.

First quarter exports of milk products by volume - 1994-1996
(Tonnes)

PRODUCT	JAN-MAR 1994	JAN-MAR 1995	JAN-MAR 1996	change 1995/96
Pre-packed liquid milk	21.9	0.3	206.8	-
Milk powder	6.2	424.5	43.4	(89.76)
Evaporated milk	122.3	67.1	45.4	(32.38)
Condensed milk	263.6	76.6	776.5	927.14
Yoghurt	1.0	0	0.9	-
Whey and buttermilk	24.3	108.7	11.1	(89.79)
Butter and other fats	0.1	15.7	4.3	(72.48)
Cheeses	4.4	6.7	9.2	36.9

Source: SICM.

JAPAN

1. Developments of dairy policies since 1st August 1995

a) Domestic policy

The market situation of skimmed milk powder was tight in the second half of the 1994 fiscal year. The milk producers' organisation therefore decided that the planned target production level for the 1995 fiscal year increased by 2.8 per cent compared to the previous year. In the 1996 fiscal year, it slightly increased by 0.5 per cent compared to the previous year.

The administrative prices for the 1996 fiscal year remained the same as follows:

- milk for processing:
  - guaranted price: ¥75.75 yen/kg
  - standard transaction price: ¥64.26 yen/kg
  - deficiency payment: ¥11.49 yen/kg
  - ceiling quantity for deficiency payment: 2.3 million tonnes
- stabilisation indicative prices for designated dairy products:
  - butter: ¥993 yen/kg
  - SMP: ¥12,841 yen/25 kg
  - sweetened condensed whole milk: ¥8, 055 yen/24.5 kg

b) Trade policy

Specific dairy products, such as butter and skimmed milk powder, used to be subject to quantitative import restrictions. Such dairy products, however, have been tariffied, as of April 1, 1995, in accordance with the WTO Agreement.

The LIPC (Livestock Industry Promotion Corporation) deals with in-quota imports of designated dairy products for general use, which, under the current access opportunities, amounted to 137 202 tonnes (whole milk equivalent).

In the 1996 fiscal year, 17 700 tonnes of skimmed milk powder and 3 300 tonnes of whey and modified whey are scheduled to be imported by the LIPC to meet the committed current access level.

2. Developments of the dairy product markets since 1st August 1995

a) Development of the factors which had an impact on the dairy sector and quantitative impacts on production, consumption, trade and prices of the various types of dairy products.

Milk production of 1995 did not increase until September compared to previous year, because of the delay of the delivery and reduction of dairy cows caused by the hot summer of 1994. After that, milk production gradually recovered.

(Unit: thousand tonnes)

Item	Fiscal year	Production	Consumption	Import	Export
Fresh milk	1992	8 617	8 617	0	0
	1993	8 551	8 551	0	0
	1994	8 388	8 388	0	0
Butter and butter oil	1992	100	85	1	0
	1993	105	89	0	0
	1994	76	90	0	0
Skimmed milk powder	1992	213	213	21	0
	1993	217	216	6	0
	1994	181	230	23	0
Cheese	1992	31	162	131	0
	1993	32	170	138	0
	1994	31	176	145	0

Source: Food Balance Sheet

Note: The Japanese fiscal year is from April to March.

b) Short term outlook

Milk production of the 1996 fiscal year is forecast to be about 8.5 million tonnes, slightly above the previous year.

AUSTRALIA

1. Developments of dairy policies since 1st August 1995

a) Domestic policy

The price of Australian manufacturing milk at farmgate level is forecast to be A$0.252 per litre in 1996/97 compared to A$0.263 per litre in 1995/96. This forecast price is inclusive of a 2.2* cents per litre domestic support payment generated through the dairy market support arrangements which commenced on 1 July 1995. This level of support is unchanged in cents per litre from 1995/96.

The farmgate price of market (liquid) milk in Australia is determined by State Market Milk Authorities. In 1996/97 it is forecast to average A$0.509 cents per litre compared with A$0.497 cents per litre in 1995/96.

b) Trade policy

Australia administers a tariff quota on imports of certain types of cheese from all countries except cheeses originating in and coming from New Zealand, Papua New Guinea and the South Pacific Forum Islands. The tariff quota allows for the importation of up to 11,500 tonnes of dutiable cheese at a concessional tariff rate of A$96 per tonne with imports above that level attracting tariff at the bound rate of A$1,366 per tonne from 1 January 1996 (A$1,403 in 1995). This bound rate will reduce to A$1,330, A$1,294, A$1,257 and A$1,220 on 1 January 1997, 1998, 1999 and 2000 respectively.

2) Developments of the dairy product markets since 1st August 1995

a) Development of the factors which had an impact on the dairy sector and quantitative impacts on production, consumption, trade and prices of the various types of dairy products.

Milk Production

While 1995/96 milk production data has yet to be finalised, total production is expected to be 8.65 billion litres - compared with 8.21 billion litres in 1994/95. Production has increased as a result of:

- increased cow numbers
- favourable seasonal conditions in most regions
- higher farm gate prices encouraging production/supplementary feeding
- underlying improved farm/cow productivity.

---

* Based on average milkfat of 4.15 per cent and average protein of 3.25 per cent.

Product mix decisions throughout 1995/96 were varied. The early season which increased returns for butter/skim milk powder encouraged production of these products. However, subsequent strong demand for cheese and whole milk powder restricted the shift towards butter/skim milk powder. The easing of butter/skim milk powder prices in the latter part of 1995/96 further encouraged late season cheese and whole milk powder production.

Market Conditions

A reasonably strong domestic economy is reflected in increased retail sales of most dairy products. For example, retail cheese sales increased by just over 5 per cent in 1995/96 - with the strongest percentage increases being in fresh and hard grating types.

Retail sales of chilled dairy lines (yoghurts and dairy desserts) continued to grow in 1995/96. Sales growth has been encouraged by the launch of Nestle lines of products in early 1996.

The recent easing in international market prices has resulted in some concern and a slight increase in product stock levels.

Farm Gate Price Trends - Manufacturing Milk

In 1995/96 farm gate prices for manufacturing milk increased by around 30 per cent compared with 1994/95 prices.

The main reason for the increase in farm gate prices was the underlying increase in export market prices. Given that exports account for around 45 per cent of total milk production in Australia, and national dairy industry arrrangements which link domestic market prices to international price movements, this has had a flow-on effect on farm gate prices.

The Australian Bureau of Agricultural and Resource Economics (ABARE) has provided the following aggregate price data.

Manufacturing Milk Prices
- national average -

Fiscal Year	C/litre	% change
93/94	21.1	
94/95	20.3	-3.79
95/96	26.3	29.56

Although there has been an increase in farm gate returns, there has been a significant increase in feed grain prices. This has resulted in a more strategic approach to supplementary feed usage.

Current indications are that 1996/97 prices will be 10-15 per cent lower than 1995/96.

Trade

i) Exports

The following table shows Australia’s levels of exports of the major traded dairy products in years 1993-94 and 1994-95, together with the percentage change to the volumes over these two years.

Australian exports of major traded dairy products
('000 tonnes)

	1994-95	1993-94	% Change
Butter	35.6	43.2	-17.6
Butteroil	39.8	40.8	- 2.5
Skim Milk Powder	172.0	163.3	+ 5.3
Whole Milk Powder	95.4	74.0	+ 28.9
Cheese	111.2	96.6	+15.1
	454.0	**417.9**	

Source: Australian Dairy Corporation.

Around 45 per cent of Australia's milk production is exported in manufactured forms, with over 80 per cent of these sales destined for markets in Asia and the Middle East.

It is expected that the focus on the Asian market for Australian dairy exports will continue, as economic growth in these countries remains at a high level, and Uruguay Round market opening commitments are progressively implemented.

Price levels for the major traded dairy products have generally declined during 1996 from the high levels of 1995. Australian origin spot prices for June 1996 were as follows:

Product	US$ per tonne
butter	1,500-1,600
butteroil	1,800-1,850
skim milk powder	1,800-1,850
whole milk powder	1,825-1,875
cheese (cheddar)	2,250-2,300

Source: Australian Dairy Corporation.

Japan has maintained its place as Australia's major market for cheese, and the Philippines continues to maintain its position as the major destination for skim milk powder.

ii) Imports

Australia imports significant quantities of cheese, mainly from New Zealand and the European Union. In 1994-95, Australia imported 15 875 tonnes of cheese from New Zealand and almost 9 000 tonnes from the EU, out of a total import volume of 27 769 tonnes. The balance of the cheese imports were sourced largely from non-EU Europe.

2. Short term outlook for the dairy product markets

ABARE has reported that world spot prices for dairy products, which were rising throughout 1995 and into the early part of 1996, have fallen slightly.

However, this recent fall in dariy product prices is unlikely to continue, and prices are expected to stabilise. Factors which contributed to the major price increases in 1995-96 are still expected to underpin world dairy markets. These factors include:

- cuts in the EU and US dairy subsidies under the implementation of the GATT Agreement
- low levels of world dairy stocks, and
- continuing growth in Asian demand for dairy products.

In view of the above factors; Australia's exports of dairy products to Asian markets are expected to rise. As a result, the total value of Australia's dairy exports is forecast to increase by 6.4 per cent to around A$1.9 billion in 1996-97.

However, the use of the United States Dairy Export Incentive Program in Asia could reduce some of the benefits of expanding Asian demand to Australian exporters, as competition increases in this market.

NEW ZEALAND

1. Developments of dairy policies since 1st August 1995

a) Domestic Policy

Dairy product promotion

There is no Government assistance for dairy product promotion, either in the domestic, or export markets. The deregulation of the domestic market for liquid milk, has seen a concentration and take-over of many of the small liquid milk and fresh milk product processing units by the larger co-operative manufacturing dairy companies. There has been strongly competitive behaviour between the major companies to secure market share for liquid milk and fresh milk products [flavoured milk drinks, cream and fresh cheeses, yoghurts, etc.] in the domestic market. The individual companies have included strategies of developing brands for their product lines and promoting these via advertising. The New Zealand Dairy Board has two subsidiaries, Buttermark Ltd and NZ Cheese Promotions Ltd that conduct generic promotion of butter and cheese, respectively, in New Zealand's domestic market.

Stock disposal arrangements

The New Zealand dairy sector has an export orientation. The year round supply of dairy products to customers in export markets, particularly, given the very seasonal pattern of production of manufactured dairy products, requires the holding of stocks of dairy products as a normal commercial requirement. Because of its competitive position in international markets, the New Zealand Dairy Sector, has no policy to hold anything other than necessary commercial stocks; nor is there any Government intervention programme that affects stock holdings.

Direct payments

There are no sector specific direct payments made to New Zealand dairy farmers from the Government. Policies relating to adverse events/natural disasters, have in recent years, encouraged producers and Local Authorities to take responsibility for the risks associated with natural disasters.

b) Trade Policy

Changes since 1 August 1995

As part of the GATT Uruguay Round outcome, New Zealand obtained an increase in its country-specific tariff quota for butter to the EU from 51,380 tonnes in 1994 to 64,249 tonnes in 1995, and 76,667 tonnes annually thereafter. New Zealand also maintained its country-specific cheese access to the EU of 9,500 tonnes. The rates of duty that apply to these butter and cheese tariff quotas are 868.8 ECU/tonne ($1,640/tonne) and 170.6 ECU/tonne ($320/tonne), respectively. New Zealand is now also able to compete for the EU's annual tariff quotas for SMP and various types of cheese, which were opened to all GATT/WTO member countries from 1 July 1995.

As part compensation for the accession of Austria, Finland and Sweden to the EU, New Zealand's country-specific cheese access has been increased by 16% to 11,000 tonnes from 1996. This comprises an extra 1,000 tonnes of cheese for processing and 500 tonnes extra of cheddar.

Status of official export organisations

The New Zealand Dairy Board [NZDB]. The functions of the NZDB are governed by the Dairy Board Act 1961, which specifies that the main functions of the NZDB are the acquisition and marketing of export dairy products and otherwise controlling the export of dairy products other than those acquired by the NZDB. The Act gives the NZDB the authority to carry out its functions. The NZDB is not a government department, nor an agency of government. It is an independent commercial organisation that has to conform to the functions and powers in its Act. The NZDB receives no government subsidies or finance, no special tax advantages, nor any direction from Government in its day-to-day commercial affairs.

The Government's involvement is limited to:

- maintaining the regulatory framework, within which the Board operates;
- assisting in the setting of the terms of reference and selecting the auditor for regular performance and efficiency audits of the Board;
- appointing two commercial directors to the Board (out of a total of 13 directors). These directors must be recommended by the Board.

In late 1995, at the request of the dairy sector, the Government introduced the Dairy Board Amendment Bill. This Bill has now been enacted.

The Dairy Board Amendment Act 1996:

- repeals the NZDB's current ownership provision, added in 1992, and replaces it with a share structure;
- provides for the NZDB to have a constitution on matters relating to shares;
- recasts the NZDB's current dissolution provision to provide for the continuation of marketing activities should the NZDB ever be dissolved;
- requires the directors of the NZDB to comply with directors duties and provisions of the Companies Act 1993, modified to take account of the statutory nature of the Board; and
- requires improved financial reporting, enabling the Accounting Standards Review Board to set applicable reporting standards for the Board.

The Bill provides for shares in the NZDB to be owned by cooperative dairy companies in proportion to the quantity of milksolids supplied by companies to the NZDB. Existing co- operatives, that supply dairy produce to the Board, who increase their production, and new supplying co-operatives, will be required to purchase additional shares in line with the additional supply. The shares are non-transferable, have voting rights and can attract a dividend.

If the NZDB was ever dissolved, the proposed new dissolution clause will provide for the continuance of the body corporate in a company form, unless the shareholders of the NZDB have decided that its assets and liabilities should be transferred to some other entity or entities. The industry believes that a dissolution clause is needed to protect the brand value and usage of those brands owned by the NZDB beyond the life of the NZDB for the advantage of the whole industry.

Import authorisations

Dairy products may be imported into New Zealand, but are subject to human health and sanitary considerations, arising from New Zealand's concern to safeguard human health and its status of freedom from a number of enzootic diseases of livestock, and most notably, foot and mouth disease: There are specific requirements relating to pasteurisation of milk to protect human health, and certification concerning the absence of foot and mouth disease in the country of origin of dairy product imports.

- Imports are permitted from approved countries;
- If the product is for human consumption it must comply with the Food Regulations (1984) of New Zealand, administered by the Department of Health and may be subject to inspection;
- The consignment must be accompanied by a certificate which states that the milk used in the product has been fully pasteurised;
- The consignment must be accompanied by a certificate which states that foot and mouth disease has not occurred in the country of origin during the twelve months prior to the manufacture of the dairy product.

In June 1996, the Food Amendment Act 1996, was passed to amend the Food Act 1981, providing for the establishment of the Australia New Zealand Food Authority and setting of joint food standards within the Commonwealth of Australia and New Zealand. This establishment of a Joint Food Standard Setting System has implications for trade/imports of dairy products into the two Countries.

Customs duties

Tariffs on goods imported into New Zealand continue to decrease in line with Government policy. Under the current tariff reduction programme, there will only be four levels of tariff by July 2000:

- 15% [carpets, apparel, footwear and motor vehicles];
- 10% [tyres, some textiles];
- 5% [most other goods manufactured in New Zealand]; and
- 0% [duty free].

At the present time any imports of butter and cheese enter duty free, and there are low and reducing tariffs applying for other milk products. Dairy products with a tariff of 6 per cent reduced to 5 per cent in July 1996, and products with a tariff of 10 per cent to 8.5 per cent from July 1996. Most dairy products imported from Australia and Canada may enter duty free. By 1 July 1999, the maximum tariff on any imported dairy products will be 5 per cent.

A further review of tariffs is scheduled for 1998.

2) Developments of the dairy product markets since 1st August 1995

a) Development of the factors which had an impact on the dairy sector and quantitative impacts on production, consumption, trade and prices of the various types of dairy products.

i) Notes on climatic and economic conditions affecting production, demand and market supply

The 1995/96 season saw a record level of dairy production in New Zealand. Opening dairy cow numbers for 1995/96 showed an increase of 5% to 3.2 million head.

The season began with a wet winter and spring period, but favourable weather conditions prevailed over the summer and autumn months. As a result, total milk production for the season ended May 1996 is estimated to be 10 million tonnes, 7% higher than in 1994/95. Of this, 9.56 million tonnes is estimated to have been used for the manufacture of dairy products. This was equivalent to 786,000 tonnes of milksolids. It was a record production year, eclipsing the previous record of 735,000 tonnes of milksolids achieved in the 1993/94 season.

Farm gate milk price

There was a record farmgate payout during the 1995/96 season. The New Zealand Dairy Board's basic price for 1995/96 was initially set at $2.65/kg milksolids. This was increased to $3.15/kg milksolids in October 1995, and further increased to $3.40/kg milksolids in February 1996. Both increases were backdated to the beginning of the season.

World prices for all major dairy products increased during 1995/96. While the benefits of the stronger world prices to New Zealand farmers were eroded by the appreciation of the New Zealand dollar, the extent of this was mitigated to a large degree by the Dairy Board's forward cover of the exchange rate. The Dairy Board's final basic milk price of $3.60/kg milksolids [$6.26/kg milkfat] is the highest on record. However, in real terms, it is still below the price levels received by farmers prior to 1987.

The average payment to farmers for milk for the 1995/96 season, made up of the Dairy Board's basic price plus processing company top-ups, is estimated to be $4.00/kg milksolids [$6.96/kg milkfat]. This is an 18% increase on the 1994/95 average payment of $3.39/kg milksolids [$5.90/kg milkfat].

Dairy farm gross revenue increased during the 1995/96 season. In the year to May 1996, higher milk prices combined with higher production levels more than offset falling beef prices. This resulted in estimated dairy farm gross revenue rising by 23% to an average of around $237,000.

Trends in milk/feed price ratio

The principal source of feed supply, on New Zealand dairy farms is pasture, grazed *in situ*. While some use is made of meal based feed supplements, the cost of meal feeding is generally too great to allow farmers to use meals in anything other than as a brief stopgap measure, particularly during the early stages of the post calving development of the lactation of cows. Alternatives to meal feeding include the boosting of early spring pasture growth, for example, by the use of nitrogenous fertilizer.

Implementation of supply management

There is no supply management operated in New Zealand nor any supply control measures. In the New Zealand context, the most powerful factor that determines farmers’ decision making on milk production is the level of farmgate returns they receive, and the relativity of these with returns from other alternative farm enterprises.

In recent years farmers have been responding to their perceptions of changing relative profitability between sheep and cattle enterprises on the one hand, and dairy farming on the other. They have also been influenced by the changed terms of trade access for New Zealand dairy product exports, resulting from the GATT Uruguay Round negotiations, which assure improved access and longer term export prospects for the export oriented New Zealand dairy sector.

The result has been an expansion of dairy production on both existing dairy farms, as well as development of new dairy farm units on land previously used in sheep and beef cattle farming systems. The switch to dairying from sheep and beef farming is continuing. There has been a notable expansion of dairy production in the South Island; farms in Canterbury and Otago, are able to ensure summer pasture production, from irrigation; while in Southland, the generally well distributed summer rainfall, assures good summer pasture growth. In the North Island there has been expansion in the Wellington region, again largely as a result of conversion of sheep and beef livestock finishing farms into large-scale dairy farm units. Furthermore there has also been significant expansion in production occurring in the traditional intensive dairy production regions of the Waikato, Taranaki and Northland. Of the total increase in cow numbers over the past two years, around 70,000-75,000 cows per year [in excess of 40%] are estimated to have come from conversions during that period. A similar increase in the 1996/97 herd is expected to be from recent conversions, but this trend is expected to decline over the medium term due to lower prices and share purchase requirements.

The increase in milk production is driving an expansion in processing capacity. Several dairy companies are increasing their manufacturing capacity, either by expanding their existing facilities or by building new plants. In addition to the need to cope with increasing production, there is the further need for individual processing Co-operatives to diversify their range of product manufacture.

Two new cheese production facilities, one in the Waikato and one in the Manawatu, began production in 1995/96. The Waikato plant is capable of producing 70,000 tonnes of cheese annually and is the world's largest single-site cheese plant.

Significant investment is taking place in Canterbury and Southland. Restrictions have been placed by the cooperatives in these regions on the acceptance of new suppliers for 1996/97, until new processing capacity is built.

ii) Quantitative developments in production, consumption and prices (farm gate, wholesale and consumer prices) for the various types of dairy products over the year.

See Tables.

New Zealand: Retail Prices

	Units	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**Jan-Apr 1996**
MILK	$/litre	1.18	1.19	1.19	1.22	1.18	1.19	1.28
BUTTER	$/kg	3.67	3.78	3.74	3.86	3.76	3.72	3.80
MARGARINE	$/Kg	4.09	4.06	3.78	3.65	3.51	3.52	3.52
CHEESE (Cheddar)	$/Kg	8.16	8.32	8.00	7.95	6.86	6.68	6.85

iii) Trade

EU, Japan and the US are New Zealand's most important markets

New Zealand's three largest dairy markets by value are the EU, Japan and the US. All three have protected dairy industries, with domestic prices much higher than world prices. The high prices obtained in these markets insulate New Zealand to some extent from the volatility of commodity prices in other markets.

The UK remains New Zealand's top butter market, taking 62,900 tonnes or 36% of total butter exports by volume in 1994/95. In value terms this was $323 million or 57% of the value of total butter exports (or about 9% of total dairy export value). Japan continued as New Zealand's top cheese market, importing 44,300 tonnes or 27% of total cheese exports by volume. The US took 40% of casein exports by volume (36,400 tonnes) to remain New Zealand's top market for casein. The top milk powder market for New Zealand was Malaysia, with 14% of milk powder exports by volume in 1994/95.

Access to the EU market increases

Total exports by value to the EU in 1994/95 were $649 million, up from $612 million in 1993/94. Exports of casein rose 11% in volume terms to 24,000 tonnes (27% of total casein exports).

Exports to US fall

The value of exports to the US dropped to $287 million in 1994/95 from $351 million in the previous year. The main export, casein, fell 6% to 36,400 tonnes, but the United States remains New Zealand's largest export market for casein accounting for 40% of total casein exports. New Zealand also exported 15,500 tonnes of cheese to the US, down from 16,800 tonnes the previous year.

Exports to Japan increase

Japan passed the US to become New Zealand's second largest export destination by value for dairy products in 1994/95, behind the EU. Total New Zealand exports of dairy products to Japan were valued at $402 million in the year to June 1995, up 16% on the previous year's level. Cheese, the main export, rose 13% to 44,000 tonnes, while exports of SMP rose 86% to 11,900 tonnes. Exports of casein increased 20% to 14,900 tonnes.

Other Asian markets increasing in importance

Other than Japan, the most important markets for New Zealand dairy products in the Asian region for the year to June 1995 were:

- Malaysia, New Zealand's fourth largest market by value in 1995/96, which imported 73,100 tonnes of New Zealand dairy products (mainly WMP and SMP), an increase of 5% on the previous year's imports;
- Taiwan, New Zealand's fifth largest market by value, with its main imports being 22,200 tonnes of WMP and 17,600 tonnes of SMP;
- the Philippines, which imported 44,000 tonnes of dairy products from New Zealand, down 8% on the previous year's level;

- Thailand, where imports of New Zealand dairy products rose 32% to 33,000 tonnes, mainly WMP and SMP; and
- Indonesia, which imported 27,000 tonnes of New Zealand dairy products (mainly SMP), 51% higher than in the previous year.

Latin America, North Africa and the Middle East also major markets

In 1994/95, Mexico dropped to New Zealand's eighth largest market by value (from fifth), taking $115 million, or 3% of total dairy exports. This fall resulted from economic pressures, in particular Mexican exchange rate difficulties. The main imports from New Zealand continued to be milk powders at 23,000 tonnes (compared with 42,000 tonnes in 1993/94).

Other significant markets in Latin America, North Africa and the Middle East in 1994/95 were:

- Algeria, where economic instability led to a fall in imports of New Zealand dairy products, in particular WMP, which fell by 17% to 29,000 tonnes, and butter, which fell by 13% to 3,500 tonnes;
- Venezuela, which imported 33,000 tonnes of WMP, an increase of 10% over the 1993/94 level (however, this trade faces uncertainties in 1995/96 due to balance of payments problems);
- Saudi Arabia, which bought 29,000 tonnes of dairy products from New Zealand, up 21% on the previous year's level, with the increase being spread evenly over SMP, butter, and cheese; and
- Iran, which imported 10,000 tonnes of butter in 1994/95, down 29% on 1993/94 levels.

b) Short term outlook

The outlook for cheese prices over the remainder of 1996 has remained firm as a result of moves by the European Union to further curtail subsidised exports of cheese. However, the outlook for other dairy products, especially butter and SMP, are very poor. Prices are being kept low by ample supplies of most of the main dairy products and quiet demand conditions. Further downward pressure has been put on milk powder prices by the European Union’s decision in August to increase SMP and WMP refunds by 14% and 4 per cent, respectively. The United States is bucking the trend with record price levels for butter and cheese in July. This has been due to growth in milk production being constrained by high feed prices at a time of strong domestic demand in its restricted market. As a result of the lower world prices, the weighted average farmgate payout forecast for the 1996/97 season is $3.65 per kg milksolids ($6.35 per kg milkfat) **-** a fall of 9 per cent on the previous season.

Cow numbers increased by 5 per cent to 3.2 million at June 1996, reflecting the continuing favourable returns from dairying in comparison with sheep and beef. For 1996/97, assuming average climatic conditions, milk production for processing is thus expected to increase by 2 per cent to around 803,000 tonnes of milksolids.

For 1996/97, the final farmgate price of milk is expected to fall to $3.65/kg milksolids [$6.35/kg milkfat]. This reflects a fall in world prices for butter and SMP, and a marginal rise in the exchange rate, although higher cheese prices and increased cheese exports to the EU are expected to partially offset these downward influences.

Gross farm revenues are expected to ease slightly in 1996/97 to around $232,000, with lower payouts in 1996/97 being largely balanced by bigger average herd sizes.

New Zealand: forecasts of the dairy situation

	Units	1994	1995	1996	1997f
MILK **(a)**					
Number of dairy cows (b)	'000t	2808	2999	3153	3260
Yield	t/cow/year	3.16	2.96	3.01	2.97
Production	'000t	9312	9285	9934	10117
Price (c)	NZ c./litre	28.4	29.0	34.2	31.2
BUTTER (d)					
Production	'000t	272	265	278	296
Consumption	'000t	32	31	31	31
Exports	'000t	256	234	238	265
SKIM MILK POWDER (e)					
Production	'000t	163	171	203	159
Exports	'000t	130	183	150	150
CHEESE					
Production	'000t	193	197	234	258
Consumption	'000t	29	30	32	34
Exports	'000t	138	169	173	195
WHOLE MILK POWDER (f)					
Production	'000t	333	342	337	354
Exports	'000t	306	318	278	300

Notes: 1 litre of milk = 1.032 kg of milk.

(a) Year ending May.
(b) Opening dairy cows and heifers in milk - two years and over.
(c) Average farmgate price of milk. Milkfat to milk conversion factor of 0.048.
(d) Butter including anhydrous milkfat and ghee.
(e) Skim milk powder including butter milk powder.
(f) Whole milk powder including infant feed.

The above projections assume a steady appreciation of the NZ$ of about 2 per cent p.a.

EUROPEAN UNION

1. Developments of dairy policies since 1 August 1995

The institutional prices for the 95/96 and 96/97 dairy years, namely the target price of milk, intervention price for butter and intervention price for skim milk powder, remained at the same level as in the 1994/95 dairy year following the Council decision. The implementation of the GATT agreements has necessitated a fundamental change in Community legislation with regard to border prices (threshold prices), protecting the internal market (import levies) and trade in particular.

Threshold prices were abolished with effect from 1.7.1995 in order to implement the GATT agreements. Another consequence of implementing the GATT agreements was the abolition of the import levy system, which has been replaced by customs duties. A fixed amount is applied according to the import's value or weight. Also, on the trade front, community regulations have undergone a profound change in order to meet import and export quotas as well as to stay within budgetary constraints, whilst causing the least disruption possible to the Community's internal market.

The aim of agricultural policy measures in the dairy sector can be said to be twofold, to stay within budgetary constraints and to meet quotas whilst protecting the internal market from external disturbances and turbulence. To achieve this aim, the Commission has introduced the following measures:

- storage costs on private storage aid for cheese were reduced by 12.5 per cent and interest expenses by 7.7 per cent;

- refund payments were revised several times from 1 July 1995 to mid-August 1996. Condensed milk was reduced by 32.5 per cent, cheeses by an amount ranging from 19 per cent (for Pecorino) to 38 per cent (for cooked cheese), skim milk powder by 19 per cent, whole milk powder by 9.75 per cent and butteroil by 4.4 per cent. Butter, on the other hand, rose by 9 per cent;

- the dispensation concerning a minimum incorporation of 35 per cent of skim milk powder in feed manufacture was not extended beyond the end of June 1996 and so the minimum reverted to 50 per cent as of 1.7.1996.

2. Developments of the dairy product markets since 1 August 1995

The dairy herd stood at 21.9 million in mid-1996. The United Kingdom had revised its figures downwards, which seemed normal following the BSE crisis.

Deliveries in 1995 totalled 13.2 million tonnes. This figure is expected to drop by around 640 000 tonnes in 1996 due to the supplementary levy to be paid that year.

Yield continued to rise by over 2 per cent per year, reaching 110 kg/cow/year. The Community average in 1996 was set to be 5 458 kg/cow. The most remarkable growth was in Portugal, up 12 per cent in recent years.

The figures for milk used to manufacture fresh products rose for whole milk and dropped for skim milk. In 1995 and 1996, these fluctuations were attributable to France and Germany.

Butter production (including butteroil) rose to 1.8 million tonnes in 1995 and in 1996 is expected to drop by 80 000 tonnes, down 4.2 per cent. Butter consumption was 1.73 million tonnes in 1995 and is set to drop by 8 000 tonnes in 1996, down 0.5 per cent. Domestic surplus production would therefore only be around 20 000 tonnes.

In 1995, cheese production totalled 6.22 million tonnes, 90 000 tonnes up on 1994 and 24 000 tonnes down on the expected 1996 figures. Cheese consumption is still up, by an expected 1 per cent in 1996 and 1997. It stood at 5.92 million tonnes in 1995 and was set to rise to 5.98 million tonnes in 1996.

Total milk powder production stood at 2.25 million tonnes in 1995 and was set to reach 2.3 million tonnes in 1996. The rise was due to the growth in whole milk production, as skim milk was set to remain at the 1995 level of 1.22 million tonnes.

Condensed milk production remained stable at 1.3 million tonnes in 1994, 1995 and 1996.

Casein production was up 24 per cent in 1995 at 142 000 tonnes.

Community stocks were the lowest ever during the past year. However, since the opening of the skim milk powder intervention on 1 March 1996, sales have reached 97 132 tonnes because of the fall in the use of skim milk powder in calf feed. 19 000 tonnes of butter was sold into intervention.

Total consumption of milk and milk products in milk equivalents in the European Union in 1995 was 1 per cent down on 1994, although it was 1.9 per cent up on 1993.

Exports of dairy products from the European Union picked up again in 1995 after falling in 1994. Thus, in 1995, Community exports represented a 45 per cent share in the world trade of 30.8 million tonnes. Butter and butteroil exports stood at 225 000 tonnes in 1995, skim milk powder 367 000 tonnes, other milk powders 592 000 tonnes and cheese 519 000 tonnes.

Imports remained steady at the 1994 level, although a 6.5 per cent rise in butter and butteroil imports should be noted.

Data on milk production

EUR-15	1994	1995@	1996#
1. DAIRY COW NUMBERS			
a) Mid-year census	22 692.6	22 280.3	22 010.1
b) End-year census	22 980.5	22 384.6	21 945.6
2. DAIRY COWS' MILK PRODUCTION	120 459	121 289	120 998
Cows' yield	5 234.1	5 347.2	5 458.9
3. DAIRY COWS'MILK DELIVERIES	111 633	113 197	112 558
Delivery ratio	93.2	93.7	93.0
4. BUTTER			
a) Total	1 822.7	1 815.4	1 738.8
b) Dairy	1 803.9	1 795.1	1 723.7
c) Farm	18.8	20.3	15.1
d) Consumption	1 750.5	1 726.7	1 718.4
5. CHEESE			
a) Total	6 135.1	6 226.7	6 250.0
b) Dairy (cows' milk)	5 621.8	5 712.0	5 743.5
c) Farm (cows'milk)	59.5	55.3	41.0
d)+e) Non cows'milk	453.7	459.1	465.1
f) Consumption	5 809.8	5 920.3	5 978.4
6. MILK POWDERS			
a) Total	2 291.2	2 250.7	2 299.8
b) Skimmed	1 229.9	1 223.7	1 223.6
c) Semi-skimmed	181.6	196.8	183.6
d) Whole	829.3	790.4	840.5
e) Buttermilk powder	52.4	51.7	58.8
7. CONDENSED AND EVAPORATED MILK	1 297.5	1 309.2	1 296.8
8. CASEIN AND CASEINATES			
Production	112	142	121

Notes: # = 1996 forecasts include DG VI D-1 estimates; @ = provisional

EU external trade

Q = t.		1994	1995
Butter + butteroil	Export	153 660	225 162
	Import	64 954	69 194
SMP	Export	137 700	367 100
	Import	33 132	31 100
Other milk powder	Export	586 300	592 400
	Import	5 047	6 100
Condensed	Export	286 000	337 600
	Import	533	200
Cheese	Export	509 600	519 700
	Import	122 493	78 400
Fresh products	Export	328 400	345 600
	Import	18 153	16 100
Whey powder	Export	44 400	42 300
	Import	7 000	7 400
Casein	Export	50 400	50 000
	Import	87 310	46 700

Denmark

Developments of the dairy product markets

Due to a dry period in the summer of 1995, the fodder beet harvest of that year was much below normal. The harvested crops for silage were, however, rather good and fully compensated for the loss of fodder beets. The climatic conditions of the early spring 1996 were unfavourable, because of lack of moisture. Later, rainfalls have prevented crop failures, but at the moment a drought is threatening. Thus, the prospects for the 1996 fodder beet harvest are rather pessimistic.

The farm gate price of milk with 4.2 per cent fat and 3.4 per cent protein was 2.41 DKK/kg in 1995, which is 3.2 per cent lower than in 1994. This year a further decline is expected.

In the second half of 1995, milk deliveries to dairies were up by 1.7 per cent compared to the same period in 1994. Milk deliveries in the first half of 1996 are slightly lower than in 1995, when corrected for the extra day in 1995.

Cheese production increased by 6.3 per cent in the second half of 1995. In 1996, this production is suffering from severe cuts in the export refund ratos from the European Union. The production has decreased by 3.3 per cent in the first half 1996.

Like cheese, the production and exports of whole milk powder have been negatively influenced by the measures taken as a result of the GATT agreement. Production in the second half of 1995 decreased by 4.4 per cent followed by a dramatic decrease of 17.7 per cent in the first half of 1996.

As a consequence of the falling production of cheese and whole milk powder, the production of skimmed milk powder increased in the first six months of 1996 by 84.7 per cent. The production of butter increased only marginally.

According to statistics from our Dairy Export Boards (unofficial figures), Danish exports of cheese and butter have declined in the first half of 1996. Total cheese exports amounted to 111 300 tonnes compared to 122 416 tonnes in the same period in 1995. Export increases are noted to Germany, our most important market and to Sweden, Spain and Saudi Arabia, while the largest decreases have been seen in the exports to Iran and Egypt.

Butter exports declined by 4 per cent. Exports to the United Kingdom, our main market, declined only marginally. Larger decreases are recorded in the exports to Germany and Saudi Arabia, while exports to Greece and Lebanon have increased.

The Danish dairy industry’s strong export-orientation means that the impact of the refund reductions have been more severe here than in any other country.

In 1994/95, the Danish milk price fell by 3.1 per cent as a result of falling export subsidies and an unfavourable monetary development.

It is still too early to predict the consequences for Danish companies - and the milk producers - in 1995/96. It seems, however, that the drastic price fall last year has been curbed. On some markets, the refund loss may be passed on to the buyer - on others this is not possible. Furthermore, higher prices on the domestic market have contributed to improving the final result.

Danish exports of dairy products in 1994 and 1995

('000 tonnes) Product	1994	1995	1995/1994 in %	% Distribution 1994	% Distribution 1995
Cheese					
-- Total	242.5	255.6	105.4	100.0	100.0
-- of which to EU countries	117.1	130.2	111.2	48.3	51.0
-- of which to third countries	125.4	125.4	100.0	51.7	49.0
Butter (incl. butteroil)					
-- Total	49.8	51.0	102.3	100.0	100.0
-- of which to EU countries	33.8	31.4	92.8	67.9	61.6
-- of which to third countries	16.0	19.6	122.4	32.1	38.4
Skimmed milk powder					
-- Total	20.0	19.7	98.3	100.0	100.0
-- of which to EU countries	6.9	8.3	119.9	4.5	42.1
-- of which to third countries	13.1	11.4	87.0	65.5	57.9
Whole milk powder					
-- Total	107.7	92.8	86.2	100.0	100.0
-- of which to EU countries	14.4	3.5	24.4	13.4	3.8
-- of which to third countries	93.2	89.3	95.8	6.6	96.2

Note: The new EU member states Sweden, Finland and Austria are included in the EU figures.
Source: Danmarks Statistik.

Germany

Data on the German dairy market (1995)

Categories	Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year
1. Milk delivery x 1000	1995	2236.8	2085.6	2396.6	2351.4	2551.7	2363.4	2342.4	2265.6	2128.8	2151.8	2002.2	2103.8	26980.1
Fat content	1995	4.35	4.29	4.33	4.31	4.19	4.14	4.07	4.06	4.22	4.30	4.38	4.39	4.25
Protein content	1995	3.41	3.37	3.38	3.35	3.38	3.37	3.31	3.32	3.45	3.54	3.52	3.45	3.40
= amount for calculation of quota	1995	2221.0	2070.8	2379.9	2334.0	2532.6	2345.9	2325.3	2249.1	2114.2	2137.0	1988.5	2089.1	26787.4
2. Production														
Butter	1995	45464	38850	45528	45147	48129	42042	38393	36726	34615	36407	34517	39929	485747
Butteroil	1995	included in "Butter" in butter equivalent												
Skim milk powder[1]	1995	34250	30068	37641	40585	47204	40872	36129	30263	27775	26827	21733	32969	406316
Whole milk powder	1995	10232	9000	11804	10966	12017	10234	8528	8626	7856	8061	7754	7978	113056
Other milk powder	1995	10443	9481	9394	8891	9167	11043	8608	8164	7438	8892	9740	7128	108389
Buttermilk powder	1995	611	707	869	1028	1065	780	371	485	584	691	426	856	8473
Cheese	1995	119334	114333	134620	119181	130881	121957	117108	126275	120392	119964	120458	108354	1452857
3. Export (Third countries)														
Butter	1995	7419	7302	3878	1779	1939	962	369	382	509	150	552	158	25398
Butteroil	1995	51	60	0	1	60		1	1	1	1		2	176
Skim milk powder	1995	1714	3824	5358	5637	10973	13149	9046	5082.5	4319	2708	5143.6	6761	73715
Buttermilk powder	1995	20	32	16	25	57	157	60	12	16	18	279	26	717
Other milk powder	1995	1150	729	1282	1144	1373	877	1272	838	831	766	640	675	11577
Cheese	1995	5376	7498	8900	6480	10292	12933	8310	6175	8999	8393	10311	7986	101653
4. Import (Third countries)														
Butter	1995	3	101	116	4	124	213	60	341	110	362	346	666	2446
Butteroil	1995	1	0		7				4					12
Skim milk powder	1995	66	536	317	63	160	474	51	238	1191	612	1135	1627	6469
Buttermilk powder	1995	0	0				8				1		10	19
Other milk powder	1995	11	0	2	5	45	22	0	11	7		62	18	183
Cheese	1995	836	1027	1341	1239	1020	1493	896	1331	1704	1304	2988	2241	16520

[1] Includes skim milk powder contents in animal feed products to which by products such as vegetable or animal fats were added before the drying process.

Data on the German dairy market (1996)

Categories	Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year
1. Milk delivery x 1000	1996	2180.5	2088.1	2323.5	2285.4	2479.8								
Fat content	1996	4.40	4.39	4.37	4.32	4.20								
Protein content	1996	3.46	3.44	3.41	3.36	3.38								
= amount for calculation of quota	1996	2134.8	2068.6	2313.1	2285.4	2479.8								
2. Production														
Butter	1996	41940	40733	41735	43330	46130								
Butteroil	1996						included in "Butter" in butter equivalent							
Skim milk powder [1]	1996	31966	27964	31312	38713	44945								
Whole milk powder	1996	7678	7042	7768	11101	12170								
Other milk powder	1996	9380	8953	10369	8990	9269								
Buttermilk powder	1996	779	660	706	1041	1078								
Cheese	1996	125278	121558	21344	124259	136214								

[1] Includes skim milk powder contents in animal feed products to which by products such as vegetable or animal fats were added before the drying process.

Data for reunited Germany after 03.10.1990

Categories	Final						Forecast	Forecast
	1990	1991	1992	1993	1994	1995	1996	1997
1. Number of milk cows								
a) mid-year	6681	5911	5412	5255	5192	5231	5200	5160
b) end-of-year	6355	5632	5365	5301	5273	5229	5180	5140
2. Cow milk production	31300	29063	27991	28098	27866	28400	28150	28080
3. Milk delivery to dairies	28721	26409	25612	26013	26047	26980	26800	26750
including: deliveries from other EU-countries			172	184	186	192	195	195
4. a) Production of drinkable milk Buttermilk and fresh products[1]	6916	7105	7515	7407	7582	7830	8020	8200
b) Use of milk for production of drinkable milk, buttermilk and dairy products								
- whole milk	5684	4542	4677	4553	4662	4860	4973	5080
- skim milk	1752	2289	2407	2422	2222	2112	2179	2244
c) Dairy cream products	544	561	584	598	615	633	642	660
d) Use of milk for production of dairy cream products								
- whole milk	3288	3778	3608	3658	3758	3869	3900	3980
- skim milk and partially skimmed milk	2773	3177	3024	3060	3142	3236	3258	3300
5. Butter - Total production	648	552	474	484	463	488	450	440
6. Cheese - Total production	1261	1249	1291	1336	1399	1453	1470	1485
Use of milk for cheese production in dairies								
a) whole milk	4799	4753	4905	5152	5316	5560	5612	5655
b) skim milk	3145	3115	3375	3364	3537	3446	3500	3550
- total consumption	1281	1300	1373	1397	1455	1511	1529	1544
7. Milk powder production	818	776	628	645	589	636	604	594
- skim milk powder	587	534	400	434	382	406	395	385
- partially skimmed milk powder	74	139	122	96	100	108	100	100
- whole milk powder	151	98	101	109	102	113	104	104
- butter milk powder	6	5	4	5	5	8	5	5
8. Condensed milk	487	474	503	514	528	551	530	530
9. Production of								
- casein	10	12	16	11	7	9	7	7
- caseinates	3	4	4	3	1	3	1	1
Total	13	16	20	14	8	12	8	8
Use of skim milk for caseine production	429	518	670	425	268	398	250	250
10. Return delivery of skim milk to farmers	1690	622	180	121	108	140	150	150

[1] The difference between use of whole milk, skim milk and drinking milk production and fresh products are additives such as fruit and sugar as well as wheat by products.

Definitions correspond to EU Commission regulation/standards.

Italy

Developments of the dairy product markets since 1st August 1995

a) Development of the factors which had an impact on the dairy sector and quantitative impacts on production, consumption, trade and prices of the various types of dairy products

Fom 1st April 1996 to 31st March 1997, the milk production price has been fixed at approximately L832/litre showing an increase of 7 per cent compared to the previous marketing year.

Up to March 1996, milk collection experienced a growth of about 4 per cent compared to the same period of the preceding year.

Since April 1996, the ISTAT has shown a reversed tendency according to provisional data.

Prices of the main dairy products have experienced a large decrease.

Butter was quoted at L5 050/kg in July 1996 compared to L6 360/kg in July 1995.

Even the prices of the most important maturing cheeses have lowered a great deal compared to prices of 1995.

The matured *Parmigiano Reggiano* was quoted at L20 225/kg in 1996 against L22 200/kg the preceding year.

A constant reduction of exports with refunds and quantitative restrictions which were imposed could create serious problems for cheese exports outside of the Community and the traditional flux of exchange could be compromised.

In 1995, 121 096 tonnes of cheese were exported against 113 954 tonnes in 1994, out of which 84 174 tonnes of exports to countries of the EU in 1995 compared to 78 974 tonnes in 1996.

In 1995, imports of milk in tanks represented 1 627 232 tonnes compared to 1 594 350 tonnes in 1994.

b) Short term outlook

Milk production in the European Union is regulated by the quota regime.

In 1996, total marketed production should be of 10 000 000 tonnes.

A decrease in production of hard cheese is foreseen because of an unfavourable turn in prices and a discouraging outlook for exports.

The production of *Parmigiano Reggiano* and of *Grana padano* is expected to be slightly lower than 200 000 tonnes.

Cheese exports are expected to experience a large decrease. Nevertheless, it is difficult to assess them because their level depends on decisions forthcoming from the Commission of the EU to guarantee the commitments taken by the GATT agreement.

Netherlands

Developments of the dairy product markets since 1st August 1995

a) Development of the factors which had an impact on the dairy sector and quantitative impacts on production, consumption, trade and prices of the various types of dairy products.

Production

Due to the threat of overproduction in the quota year 1995/96, milk deliveries were on a low level during the first three months of 1996. After 31st of March milk deliveries amounted to normal levels. In the calender year 1995 milk deliveries were 3.3 per cent higher than in 1994. In the first five months of 1996 milk deliveries were -1.5 per cent compared to the same period last year. This resulted in lower production levels for all products except cheese.

Consumption and demand

In the group of liquid milk and fresh milk products two opposite developments are visible. On the one hand a tendency towards low fat varieties with respect to liquid milk and on the other hand a tendency towards full fat products with respect to fresh milk products.Due to the warm summer buttermilk and other acidified milk products were very popular in 1995.

Prices

These unfavourable trade conditions resulted in following wholesale prices for all products, even cheese, since the beginning of the year. Average farm gate prices in 1995 were fl66.00 per 100 kg of mill (3.7 per cent fat), i.e. -2.1 per cent compared to 1994.

Trade

Trade figures of the first four months of 1996 give the same picture: exports of all products went down considerably (butter: -50 per cent, SMP: -60 per cent, WMP: -25 per cent, condensed milk: -10 per cent) except cheese. In the case of cheese, falling exports to third countries (- 9%) were compensated by expanding exports to EU countries (+ 6%), especially Germany, Spain, Sweden. As a result total exports of cheese rose with 3 per cent between January and April 1996.

b) Short term outlook

By the end of this year the consequences of the first 12 months of the new WTO-regime will be apparent and, of course, for an exporting country like Holland prospects are not so favourable. Last year the decrease in milk prices was less than expected, but for this year a bigger fall in milk prices is expected. The only resort to compensate for these negative developments on the world market is to increase market shares on the EU-markets. So far, things seem to work out for cheese.

Sweden

Developments of dairy product markets since 1st August 1995

a) Development of the factors which had an impact on the dairy sector and quantitative impacts on production, consumption, trade and prices of the various types of dairy products

Production

As of 1st April 1995 Sweden introduced the EU milk quota system. This caused uncertainty within the Swedish milk sector which has resulted in reduced milk deliveries and reduced production of several milk products.

Sweden's production of certain milk products, 1995 compared to 1994

	1994	1995	Change in %
Deliveries ('000 tons)	3 357	3 243	-3.4
fat content %	4.35	4.33	-0.5
protein content %	3.38	3.34	-1.2
Production (tons)			
Consumption milk[1]	1 318 125	1 309 206	-0.7
Butter & butteroil[2]	66 180	56 960	-13.9
Milk powder total	41 791	34 795	-16.7
Skimmed milk powder	33 590	25 930	-22.8
Other milk powder	8 201	8 865	8.1
Cheese	132 854	128 541	-3.2

Source: Swedish Dairies' Association.

[1] Drinking milk, yoghurt, etc.
[2] In butter equivalents.

Sweden's production of certain milk products Jan.-Aug., 1996 compared to 1995

	1995	1996	Change in %
Deliveries ('000 tons)	2 219	2 201	-0,8
Production (tons)			
Butter	31 060	33 499	7,9
Skimmed milk powder	19 883	20 025	0,7
Other milk powder	6 415	5 735	-10.6
Cheese	86 644	86 571	-0,1

Consumption

The sale of consumption milk has decreased by 0.7 per cent in one year. While the sale of milk with a fat content between 1-2 per cent has increased by approximately 6 per cent the sale of milk with a higher and with a lower fat content has decreased. The sale of cream has increased by 3 per cent.

Sales of butter[3] within the country have decreased by 9 per cent compared to 1994 but the exports have increased by 8 per cent. Butter stocks amounted to approximately 980 tons at the end of the year, a decrease by 75 per cent compared to the year before.

About 121 340 tons of Swedish cheese were sold within the country in 1995. This is a decrease by 2 per cent compared to 1994. However exports of cheese increased by roughly 24 per cent. Stocks of cheese totaled about 40 200 tons at the end of the year, a decrease by 4.5 per cent.

Total production of milk powder in 1995 amounted to 34.8 Mkg of which 21.1 Mkg were used for human consumption.

Yearly consumption per capita, kg

	1994	**1995**	**Change %**
Drinking milk >2%	47,6	46,1	-3,2
Drinking milk1.0-2.0%	44,1	46,8	+6.1
Drinking milk <1.0->0.1%	23,9	22,1	-7,5
Drinking milk -0,1%	5,4	4,8	-11,1
Fermented milk	29,2	28,5	-2,4
Whipping cream	6,6	6,7	+1,5
Other cream	2,7	2,8	+3,7
Butter	2,3	2,1	-8,7
Cheese	16,9	16,1	-4,7

Source: Swedish Dairies' Association.

Prices

The abolition of Sweden's former price adjustment system as well as the adjustment to the price level within EU has led to alterations of the prices for milk products in Sweden. most of these alterations occured in the beginning of 1995.

This summer (1996) Swedish dairies have recently increased their prices for several milk products. The reason given for the price increase is the need to improve the price paid to milk producers. However, due to increased competition, reduced prices on the export markets and increased deliveries, dairies have reduced producer prices again this autumn.

Furthermore, the consumer prices have been effected by a reduction of the value added tax (VAT) from 21 per cent to 12 per cent that took place on 1st January 1996.

[3] Excluding butter in blended products and butteroil.

Index measuring prices from dairy[3], 1990=100

	Dec 1994	Dec 1995	Change % Dec 94-Dec 95	Change % Aug 95-Aug 96
Consumption milk				
3%	121,2	124,7	+2,8	+6,5
1%	121,5	125,0	+2,9	+6,5
0.5%	121,9	118,9	-2,5	+2,6
Fil	118,2	121,9	+3,1	+7,7
Whipping cream	95,7	86,1	-10,0	+4,0
Other cream	108,8	95,1	-12,6	+8,0
Butter	98,5	112,3	+14,0	+10,1
Cheese	94,1	113,0	+20,0	+5,9
Skimmed milk powder	93,5	104,1	+11,3	-9,8
Milk products total	106,3	113,3	+6,6	+5,0

[4] Until January 1995 prices collected by the Swedish Board of Agriculture were used when calculating the index. After that, prices collected by Statistics Sweden have been used.

Consumer price index, 1990=100

	Dec 1994	**Dec 1995**	**Change % Dec 94-Dec 95**	**Change % Aug 95-Aug 96**
Milk	113.1	115.2	+1.9	-3,2
Cream	91.6	85.5	-6.8	-1,3
Butter	88.0	93.6	+6.4	+3,3
Cheese	100.7	112.4	+11.9	+0,7
Ice Cream	94.4	98.1	+4.0	-1,9
Dairy products total	101,3	106,1	+4,9	-1,2

The average producer price in Sweden (without any regional support) for 1995 amounted to 296,7 öre/kg (with a fat content of 4.2 per cent and a protein content of 3.4 per cent) which can be compared to 288,4 öre in 1994.

Swedish milk producers have been complaining about low profitability. The dairies have therefore increased the producer prices and the average producer price for the period Sept. 95-Aug 96 totals 302,1öre/kg.

Trade

The external trade with milk and milk products has been affected by the low value of the Swedish crown compared to other currencies. The imports of cheese for example are expected to increase in the future.

Swedish trade with EU has increased compared to 1994. However, imports/exports from/to third countries might have been cleared by the customs authority in an other member state and accounted for as intra trade in the statistics. Moreover, it should be pointed out that the statistics regarding the intra trade is not totally reliable.

Of special interest is the increased trade in yoghurt between Finland and Sweden. In 1995 Sweden exported 11 037 tons of yoghurt to Finland compared to 8 tons in 1994. The import of Finnish yoghurt in 1995 totaled 5 282 tons, an increase by 3 813 tons compared to 1994.

b) Short term outlook

The following estimations are made for the production of milk and milk products in Sweden in 1996 (tons):

Milk deliveries	3 260 000
Liquid milk[4]	1 300 000
Cream	85 000
Butter & butteroil	60 000
Skimmed milk powder	26 000
Other milk powder	9 000
Cheese	128 000

[4] Including fil, yoghurt, etc.

Sweden has now introduced the quota system and the milk farmers have had one opportunity to exchange quotas. This ought to bring about an increase of milk deliveries compared to last year.

As the exchange rate of the Swedish crown has strengthened the competition from imported milk products (especially cheese) will probably increase during this year. It is therefore expected that the increased deliveries will be used for production of butter and skimmed milk powder which can be stored under EU intervention schemes.

The improved exchange rate also implies that it will be harder for Swedish dairies to export their products. The refund reductions makes it even more difficult.

The average producer price for 1996 is expected to go up to 300-305 öre/kg.

Swedish exports of milk and milk products, tons

	Exports to third countries 1995	Exports to EU-15 1995	Total Exports 1995	Exports to EU-15 in % of total exports	Exports to third countries 1994	Exports to EU-15 1994	Total Exports 1994	Exports to EU-15 in % of total exports	Total 1995/94
Milk and cream	87	22	109	17.1	6	139	145	95.9	0.724
Skimmed milk powder	1341	8173	9514	85.9	5509	473	5982	7.9	1.690
Other milk powder	266	345	611	56.5	31	2	33	0.0	18.515
Yoghurt, not flavoured [5]	44	12	56	21.4	48	16	64	25.0	2.489
Yoghurt flavoured	39	11047	11086	99.6					
Other fermented or acidified milk/cream	20	186	206	90.3	3	8	11	72.7	18.727
Whey, whey powder, etc.	1046	302	1348	77.8	702	250	952	28.3	1.416
Butter	5988	5144	11132	46.2	8477	891	9368	9.5	1.188
Fresh cheese	118	74	192	38.5	6	7	13	53.8	14.769
Grated/powdered cheese	0	21	21	100.0	2	1	3	33.3	7.000
Processed cheese	11	94	105	89.5	16	2	18	11.1	5.833
Blue-veined cheese	3	18	21	85.7	4	0	4	0.0	5.250
Other cheese	1669	7090	8759	80.2	1902	5412	7314	74.0	1.198

Source: Statistics Sweden and Swedish Dairies' Association.

[5] Before 1995 trade figures were not shown separately for flavoured and non-flavoured yoghurt. The statistics for 1994 therefore includes all yoghurt.

Swedish imports of milk and milk products, tons

	Imports from third countries	Imports from EU-15	Total Imports	Imports from EU-15 in % of total imports	Imports from third countries	Imports from EU-15	Total imports	Imports from EU-15 in % of total imports	Total
	1995	1995	1995		1994	1994	1994		1995/94
Milk and cream	0	1698	1698	100.0	6	1131	1137	99.5	1.493
Skimmed milk powder	1	93	91	99.9	2882	505	3577	16.6	0.078
Other milk powder	0	93	93	100.0	145	81	226	35.8	0.407
Yoghurt, not flavoured *	0	101	101	100.0	45	3913	3958	98.9	2.489
Yoghurt flavoured	37	9713	9750	99.6					
Other fermented or acidified milk/cream	0	743	743	100.0	0	481	481	100.0	1.545
Whey, whey powder, etc.	47	2471	2518	98.1	60	121	181	66.9	13.917
Butter	0	78	78	100.0	1	1198	1200	99.9	0.065
Fresh cheese	243	2143	2386	89.8	547	1572	2119	74.2	1.126
Grated/powdered cheese	11	1152	1163	99.1	10	1275	1285	99.2	0.904
Processed cheese	11	2429	2440	99.5	118	2509	2627	95.6	0.929
Blue-veined cheese	14	2772	2786	99.5	22	1841	1863	98.8	1.495
Other cheese	518	11472	11980	95.9	1320	15331	16651	92.1	0.720

Source: Statistics Sweden.

SWITZERLAND

1. Developments of dairy policies since 1st August 1995

a) Domestic policy

Direct payments

i) Increase in ecological contributions and new livestock care programme

In line with the decrease in milk, cereal and sugar beet prices, the Federal Council has raised the rates of ecological contributions. In this way it is providing income support as a priority to farms making a special contribution to ecological conservation, as it already had a year ago. The Ordinance on ecological contributions has been fully revised. In this connection, the Federal Council has decided to introduce a programme for promoting livestock welfare-oriented stalling systems. The new rates of contribution are as follows:

	New	Old
Ecological compensation	SF/ha	
• Extensive pastures on set-aside rotated land: supplement in protection areas for S2 and S3 groundwater	**1000**	---
Controlled care outdoors	SF/LBU	
• Bovine animals	**120**	60
Welfare-oriented stalling systems		
• Bovine animals	**60**	---

New livestock care programme

By granting contributions for livestock care in sheds specially adapted to the various species concerned, farmers will be encouraged to provide amenities at a higher standard than required by the law for stalling, in particular where they are unable to take part in the programme of controlled care outdoors. An example is loose housing including a rest area with litter for dairy cows. Minimum requirements are set out in instructions. For instance, there must be adequate daylight in the sheds and the animals must be able to move about freely. Grating over the entire floor surface is not allowed.

By 1996, 10 to 15 per cent of the livestock population is likely to be covered by the new programme. The latter has been well received in most Cantons and by the farmers' associations concerned. Implementation rules will enter into force retro-actively on 1 January 1996.

New instructions

Requirements laid down as from this year for programmes covered by the Ordinance on ecological contributions should be applied for five years without any substantial changes being made.

ii) Increase in summering contributions

The Federal Council has decided to increase summering contributions to ensure the use of summering mountain pastures.

In 1996 the applicable rates shall be as follows:

Summering contributions	New	Old
	SF/animal	
• summering cows on summering farms and summering pastures	**300**	230
• summering cows on neighbouring common pastureland	**200**	130
• breeding bulls over one year-old and suckler, nurse or dried-up cows	**200**	130
• heifers and bullocks aged one to three	**100**	70

iii) Adjustment of contributions to cow owners

In order to maintain income parity between commercial milk producers and farmers who do not sell milk, the Federal Council has adjusted the rates of contribution as of 1 March 1996, when the milk price fell:

Contributions to owners of cows whose milk is not marketed	New	Old
	SF/cow	
• for the second and subsequent cows up to the tenth in mountain areas II to IV	**300**	1500
• for the second and subsequent cows up to the tenth in the other areas	**1200**	1400
• for the 11th and subsequent cows up to the 20th	**1200**	1400
• for the 21st and subsequent cows up to the 50th	**800**	900
• for the 51st and subsequent cows	**400**	450

Owners of cows whose milk is not marketed will therefore suffer a total income loss of SF 11 million, of which 3 million this year owing to the payment mode (downpayment during the contribution year and balance the following year). Compared with 1995, the dairy account will correspondingly decrease.

Dairy economics

i) Entry into force of the lower basic price for milk: 1 March 1996

On 1 March 1996 the Federal Council brought into force the decision it had adopted in summer 1995 to reduce the basic price for milk by 10 centimes/kg to 87 centimes/kg.

The Federal Council's decision was taken in response to the disposal difficulties prevailing on the export markets. It will also reduce the Federal budget burden for the pricing of butter and cheese. Lastly, it represents a step forward in the reform of the dairy sector, its purpose being to maintain the current volume of milk production.

Milk products: lower prices

For milk and cream for direct consumption, fresh dairy products and preserved milk, in theory buyers and consumers should benefit from the lower production price for milk. The Federal Council therefore expects prices for full milk, partly- and semi-skimmed milk and skimmmed milk in half-litre or one litre packs to fall by 5 and 10 centimes, respectively, on 1 March.

It has accordingly reduced taxation on partly- and semi-skimmed drinking milk by 3 and 5.5 centimes/litre and on skimmed milk by 10 centimes/litre. It has also reduced that on skimmed and partly skimmed acidified milk products (acidified milk, yoghurt, kefir etc.) and milk drinks (chocolate flavoured milk etc). Depending on the product concerned, these decreases will range from 4 to 10 centimes/kg or litre in proportion to that of the basic price. For the three categories of high fat beverages the tax will be simply abolished.

For butter and cheese, the reduction in the basic price for milk will be used to offset the dairy account in accordance with the decision of principle adopted by the Federal Council on 19 June 1995 to raise the supplement charged on milk converted into cheese by 5 centimes/kg. This measure is favourable to processors. Since its purpose is to lower the price of cheese, consumers should also benefit.

The Federal Price Control will ensure that the reduction in the basic price of milk and the increase in the supplement on milk converted into cheese will be reflected in consumer prices in the aforesaid sectors.

Other amendments relating to the lower milk price

- Tax in the event of the milk quota being exceeded

  The tax applicable in the event of the quota being exceeded cannot be higher than 85 per cent of the basic price of milk pursuant to the 1988 Order on Dairy Economics. It is being reduced by 9 centimes/kg to 73 centimes/kg with retroactive effect on 1 May 1995 (the start of the 1995/96 milk year).

- Reimbursement for skimmed milk used as fodder

  The reimbursement will be reduced by 1.4 centime/kg of centrifuged whole milk from 17 to 15.6 centimes/kg, with effect from 1 March 1996 for budgetary reasons.

- Deregulation in the field of milk fat fractions and "roasting cream"

  The arrangements applied by BUTYRA to regulate milk fat fractions and "roasting cream" are to be partly liberalised. From now on the manufacturers concerned will be able to produce and sell them on their own account and at their own risk and peril. The costs recorded by the enterprise with the lowest production costs will be used as a basis for calculating the financial aid. As in the past, BUTYRA will make the payments.

Repercussions for the dairy account

By lowering the basic price of milk, savings of approximately SF80 million will be made in the cheese sector. This figure includes the 5 centimes/kg increase on the supplement applicable to milk converted into cheese. For butter, the Federal Council is expecting an annual drop in expenditure of about SF 90 million. However, the reduced taxation on skimmed milk and milk products will create a shortfall of SF 8.5 million. Overall, the amendments introduced should generate savings of SF 162 million per year.

Nevertheless, the full impact of the lower basic price of milk will not yet be felt in the current milk year (November 1995 to October 1996) since the year of the Swiss Cheese Marketing Union ends on 31 July. The budget burden will therefore only be SF 55 million lighter.

ii) Quality control and quality-related payment of milk marketed

The Federal Council has adopted an Ordinance laying down new regulations on quality control and quality-related payment of the milk sold by producers, which henceforth replace the previous regulations in force. The Ordinance includes quality requirements, analytical methods, price deductions and milk delivery suspensions.   The adjustments and innovations introduced are state-of-the-art. They are to be fully enforced by end 1997 at the latest.

The Dairy Economics Inspection and Advisory Service (SICL) analyses and assesses milk offered for sale according to the following criteria: bacterial content, number of cells and content of inhibiting substances. Where standards are not met, the milk is subject to price reductions that are stepped up if quality fails to improve. In severe cases, milk delivery can be suspended until the producer proves that he can offer milk meeting all the required standards.

Swiss regulations on milk quality control and quality-related payment were harmonised in 1973. Since that date milk quality has been high, especially compared to that in other countries.

b) Trade policy

Contributions for yoghurt and preserved milk exports

These will be slightly reduced on 1 March 1996. Only a reduction of 3 to 5 centimes/kg of processed whole milk is indicated, however, owing to the great difficulties concerning competition. Contributions will be reduced to 50 centimes/kg for sterilised milk and to 60 centimes/kg for the other products.

CZECH REPUBLIC

1. Developments of dairy policies since 1st August 1995

Trade policy

A new Tariff Code is in force since January 1, 1996. It was published in the 1995 Collection of laws, under title 80, No. 299 - Government decree of December 20, 1995.

In 1996, the principle of regulatory measures provides that butter and other dairy products are evaluated separately. In both cases, the subsidies are related only to fat or fat component of milk. In case of butter, market regulation principles allow intervention purchases as well as subsidised exports. For that purpose, price of butter is determined. In case of intervention purchase, this price represents a purchase price. In case of subsidised exports it serves as a basis to determine fixed export subsidies. The price of butter is based on the level of minimum (guaranteed) price of milk set for 1996 at 6.30 Czech crowns per litre of top quality milk containing 3.6 per cent of fat. The price of butter is calculated so that it would discourage the export orientation of butter while at the same time it would allow dairies to pay farmers for their milk at least the minimum (guaranteed) price.

Other dairy products (except butter) are covered by regulatory measures of the State Market Regulation Fund through a system that preserves the institution of tender. The level of required subsidy calculated per milk containing 3.6 per cent fat remains a selection criterion that determines whether a dairy will be selected within an approved volume of milk or not. The subsidy is related specifically to the product's fat content. Therefore, the subsidy cannot be provided for casein, skim milk powder, milk proteins, etc.

2. Developments of the dairy product markets since 1st August 1995

a) Development of the factors which had an impact on the dairy sector and quantitative impacts on production, consumption, trade and prices of the various types of dairy products.

At the end of 1995, there was a significant increase of farm gate prices (by some 13 per cent) followed by a 10 per cent increase of dairy product prices. Annual domestic per capita consumption of dairy products (calculated per milk, without butter) dropped to 188 litres. Annual per capita consumption of butter dropped from 5.2 kg in 1994 to 4.6 kg in 1995. For 1996, a butter consumption at the level of 4.2 kg is expected.

Price ratio between milk and feed remains unchanged, both items have increased approximately at the same rate.

Trade

In the period January to June 1996, imports of cheese and cottage cheese increased by 33 per cent and those of butter by 417 per cent relative to the same period of the previous year. Imports of sour dairy products experienced a 3 per cent decline.

In the same period, the export of butter increased by some 25 per cent and the export of sour dairy products declined compared to the same period of the previous year.

b) Short term outlook

This year, there has been a revival of demand for cheese (especially imported) and domestically produced cottage cheese.

Consumption of liquid milk will decline.

An increase of 4-5 litres of milk can be expected for the annual per capita consumption of dairy products - (calculated per milk).

Anticipated production, consumption and trade in dairy products in 1996
(thousand tonnes)

	Milk	Butter	SMP	Cheese
Production	3 070	73	75	66
Import	-	-	1	16
Export	-	26	57	14
Consumption	2 390	47	19	68

Including “on farm consumption”.

HUNGARY

1. Developments of dairy policies since 1st August 1995

a) Domestic policy

A significant change has taken place in the Hungarian dairy sector since 1st January 1996. The Minister of Agriculture introduced a quota system in this sector, announced in the Ministerial Decree 46/95. (XII.29). It includes a nationwide quota announced by the minister, which is then further allocated by the Dairy Produce Council for each individual producer. The quota contains an amount of 1 800 million litres of milk for the introductory year. The allocation of the quota was successfully accomplished.

According to the decree, producers who are entitled to obtain a share in the quota are those who are members of the Dairy Produce Council, which produced milk in 1995, as well as those who applied for a quota share till 30th June 1996 with no base, i.e. they did not produce milk in 1995.

The producers who cease to produce milk return the required quota share to the Dairy Produce Council or forward it to other producers.

Apart from promoting quality of fresh milk (therefore, quality of processed products indirectly) the dairy sector does not obtain any support. Quality support means that producers with extra or first class milk production are given HUF 1.5/litre support and HUF 1/litre support, respectively.

Purchasing prices

June 1995	HUF 28.94	January 1996	HUF 34.77
August 1995	HUF 28.93	March 1996	HUF 34.78
September 1995	HUF 29.65	April 1996	HUF 34.50
December 1995	HUF 31.41	May 1996	HUF 33.64
Average 1995	HUF 29.60		

b) Trade policy

The export subsidies applied to milk and dairy products were changed as of 1st January 1996. The rate of subsidy was significantly decreased and it is only the cheese that is supported with HUF 20/kg.

2. Developments of the dairy product markets since 1st August 1995

Purchase of milk and number of cows

	1993	1994	1995	1996 Jan-Apr
Purchase (million litres)	1 608	1 511	1 556	496
Number of cows	450	415	421	422 (March)

The increase of expenses substantially exceeded that of purchasing prices in the first half of 1996.

The price-increase of industrial materials builds into the processing phase, which implies the increase of the processed product.

Trends in consumer prices

	1990	1991	1992	1993	1994	1995	1995 Jan.	1995 May
Pasteurised milk 2.8% 1/1 l	18.10	20.80	25.10	35.20	44.10	55.20	61.60	63.00
Trappist cheese sliced 1 kg	221	247	281	361	454	571	620	653
Sour cream 20% 0.2 l	18.30	20.00	24.30	30.00	34.30	38.70	42.00	43.10
Curd 0.25 kg	18.80	22.10	31.20	44.90	59.00			
Butter 80% 0.10 kg	-	-	-	31.10	37.00	43.40	49.10	57.70

The increase of hot days and the lack of precipitation led to the price rises in feedstuff products. The size of irrigated areas is too little to counterbalance the price rise of feedstuff and make up for the lack of feedstuff in non-irrigated areas due to the dry weather.

The decrease in buying up milk has stopped. It is now at the level of 1995. There is a wide range supply of milk and dairy products. The decrease in the population's real income has caused difficulties in selling milk and dairy products. Selling the over-production produced in the high season is very problematic because of the enormous high support abroad and the enormous low domestic support.

Production of some important products
(tonnes)

Year	Milk	Butter	Cheese
1993	615 742	18 529	54 412
1994	608 130	15 127	489 410
1995	578 661	15 404	51 506
1996 Jan-Apr	183 843	4 988	-

Source: Agricultural Market Regime.

POLAND

1. Developments of dairy policies since 1st August 1995

a) Domestic policy

Further implementation of the “Programme of restructuring and modernisation of dairy sector” with preferential credit support in order to obtain the transformation both of the milk processing sector and primary product sector.

Production quotas and price support measures do not exist.

Farmers were interested in milk production. Milk production was abandoned only on small farms where milk production is low in connection with low milk prices.

Promotion campaign of dairy products is made by large dairy factories which have good financial standing, often supported by foreign capital.

In connection with the revival of powdered milk market, the ARR, which intervenes on the milk market, has not purchased a predetermined amount of powdered milk. The milk was exported directly by the producers.

Butter purchased by ARR was gradually sold during low supply period (November 1995-April 1996).

b) Trade policy

Export subsidies, export credits and public export organisations are not concerned herein.

CN rates have not been changed in the whole sector.

Preferential custom tariff rates

- are reduced by 2 percentage points at the average for certain processed products in case of the EU and EFTA countries

- are reduced by 11 percentage points for 6 products belonging to 040410 position in case of CEFTA countries.

2. Developments of the dairy product markets since 1st August 1995.

a) Development of the factors which had an impact on the dairy sector and quantitative impacts on production, consumption, trade and prices of the various types of dairy products

Since 1995, milk supply to the dairy industry has been on the rise. Over the first quarter of 1995, milk purchase increased by 1.9 per cent as compared to the similar period of the previous year. In 1995 the production of skimmed milk powder, butter and cottage cheese increased. Production of whole milk powder, maturing cheese and casein has decreased.

As a result of high temperatures and drought in 1995, milk production fell. The purchase price of milk rose by 40 per cent and caused milk production to become more profitable leading, to an increased milk purchase in the fourth quarter of 1995. Because of a considerable increase in milk purchase prices in 1995, the milk supply for the dairy industry sector revived. Production results obtained early in 1996 show that the production of all staple dairy products (except whole milk powder) has increased. Milk purchase and sale prices as well as retail prices of dairy products are increasing.

Trade

Quantities of dairy products imported and exported in 1995

Product	Imports ('000 tonnes)	Exports ('000 tonnes)
Skimmed milk powder	1.7	97.7
Maturing cheese	2.0	12.7
Butter	0.3	9.5
Ice-cream	1.9	10.6

Concessionary sales and donations are not concerned herein.

The increase in dairy production accompanied by decreasing consumption trends may cause further increase in export.

b) Short term outlook

In 1996 the increase in milk production is expected to be about 1 per cent and the milk supply to the processing plants about 3 per cent. Dairy production is expected to rise; the same applies to export of dairy products, mainly maturing cheese, skimmed milk powder, butter, ice-cream and yoghurts, as the domestic consumption decreases.

Milk purchase prices, dairy product sale and retail prices will grow moderately.

Dairy production forecast for 1996

Product	Production ('000 tonnes)
Skimmed milk powder	121
Maturing cheese	120
Butter	122
Cottage cheese	190
Casein	2

ROMANIA

1. Developments of dairy policies since 1st August 1995

a) Domestic policy

In 1996 the support for milk production is 250 lei/l.;

According to the Law 83/1993, the farmers who breed at least 3 milk cows during one year of production, are entitled to a subsidy of 25 per cent from the total expenditures for the upkeeping of these cows.

b) Trade policy

– There are no subsidies for export;

– The export companies are approved by the Ministry of Trade and they could be:

- specialised in foreign trade;
- producers;
- private or state companies.

– There are no restrictions to impact; imports within certain preferential quotas or barter operations need an import license, granted by the Ministry of Trade;

– Custom tariffs for dairy products vary from 38 per cent to 240 per cent (i.e. butter -240%, cheese -171%).

– The import of reproduction animals are exempt from duties.

– In the case of free trade preferential agreements, concessions are granted for some dairy products, namely, reductions of custom tariffs.

2. Developments of the dairy product markets since 1st August 1995

Milk production (‘000 hl)

	1994	1995
Cow and buffalo milk	49 632	54 241
Sheep milk	3 926	3 958

Dairy production

Product	Unit	1994	1995
Consumption milk	‘000 hl	3 855	2 459
Powder milk	tonnes	13 873	14 952
Butter	tonnes	14 276	16 050
Cheese	tonnes	46 834	44 593

Dairy products prices for 1995

Product	Unit	Wholesale price lei/unit	Consumer price lei/unit
Consumption milk	l	292	350
Powder milk	kg	3 700	4 300
Butter	kg	3 746	4 300
Cheese	kg	3 800	4 500

b) Short term outlook

Production forecasts for 1996

Product	Unit	
Cow and buffalo milk	‘000 hl.	55 000
Sheep milk	‘000 hl.	4 000
Consumption milk	‘000 hl.	2 900
Powder milk	tons	17 000
Butter	tons	17 000
Cheese	tons	48 000

Dairy products prices for 1996

Product	Unit	Whole sale lei/unit	Consumer price lei/unit
Consumption milk	l	542	650
Powder milk	kg	6 200	7 200
Butter	kg	7 318	8 400
Cheese	kg	7 300	9 600

SLOVAK REPUBLIC

1. Developments of dairy policies since 1st August 1995

a) Domestic policy

In 1996 producers recovered VAT on gas oil consumed by agricultural machinery, representing SK 0.51 per litre.

The price for standard milk in 1995 and 1996 was SK 6.70 per litre.

In 1995-1996, quotas for standard milk deliveries under guarantee remained unchanged.

Internal policy measures control the price of raw milk in order to maintain the consumer price.

b) Trade policy

Export subsidies remained at the same level as in 1995.

Customs duties on imports were lowered to comply with GATT.

Licences remained unchanged.

Milk production costs were slightly higher owing to the increase in fodder wheat prices.

2. Developments of the dairy product markets since 1st August 1995

a) Development of the factors which had an impact on the dairy sector and quantitative impacts on production, consumption, trade and prices of the various types of dairy products.

In 1995 and 1996 the production of milk and dairy products remained unchanged.

The variations in consumer prices were as follows:

• semi-skimmed milk	+ 2.2 per cent
• white yoghurt	+ 5.7 per cent
• cream cheese	+ 7.6 per cent
• "edam" cheese	+ 5.4 per cent
• farm butter	- 2.2 per cent

Output and price variations for the various products in 1995 and 1996 were as follows:

	Output		Producer price		Consumer price SK/kg	
	1995	1996	1995	1996	1995	1996
raw milk	1151 *	1152 *				
drinking milk	370 *	380 *	8.25	8.41	9.67	9.88
cream cheese	13 000t	15 000t	44.32	45.02	50.67	54.52
butter	16 000t	16 000t	92.64	91.37	108.07	105.75
"edam"cheese	35 900t	38 000t	84.47	92.53	107.08	112.84

* million litres.

In 1995 the external trade balance for milk was 153 million litres. In 1996 it is expected to remain at about the same positive level.

In 1997 exports should rise. However, this should not affect the positive balance of 150 million litres of milk.

b) Short term outlook

Dairy product consumption expressed as milk used will diminish by 2.3 kg/inhabitant from 163.7 kg in 1995 to 161.4 kg in 1996. Dairy product consumption will grow as follows in 1995 and 1996:

	1995	1996
drinking milk	158.9 l	156.7 l
cheeses	5.7 kg	5.8 kg
powdered milk	1.7 kg	1.8 kg
butter	3.2 kg	3.6 kg

Dairy product output will grow as follows:

	1995	1996
drinking milk	370 million l	380 million l
cheeses	35 900 t	38 000 t
butter	16 000 t	16 000 t
cream cheeses	13 000 t	15 000 t
creams	17 000 t	17 000 t
sour milk products	24.0 million l	24.0 million l
powdered milk	15 000 t	17 000 t

KOREA

1. Development of dairy policies since 1st August 1995

a) Domestic policy

Productivity of Korean dairy cattle is lower than that of the developed countries due to its small herd size and the shortage of resources such as roughage, etc.

Accordingly, the government is carrying out structural adjustment which aims at increasing the productivity to cope with the market liberalisation trend - such as the launch of the WTO scheme and doing its best to make the dairy industry conform to the environment for sustainable development.

Furthermore, as consumer concern on safety and sanitary issues for milk increases, raw milk sanitary grading (bacterial counter, somatic cell counter) has been greatly reinforced since the 1st of July 1996 and will continue to be reinforced step by step.

The number of dairy farms is, consequently, decreasing. The average herd size per farm household is increasing year by year, as the side-job dairy farmers with low competitiveness and raw milk sanitary level is switching jobs from dairy farming to others.

b) Trade policy

Because the prices of domestic dairy products are higher than world prices, exports are nearly impossible and export subsidies to the dairy sector have not been implemented. And specific administrative organisations taking charge of exporting dairy products have not been formed.

As regards import of dairy products, tariff rates are lowered at a specific rate each year since the implementation of the WTO agreement.

2. Developments of the dairy product markets since 1st August 1995

a) Development of the factors which had an impact on the dairy sector and quantitative impacts on production, consumption, trade and prices of the various types of dairy products.

Since Korea has 4 distinct seasons, milk production decreases during winter and summer while it increases in spring and autumn. Seasonal fluctuation of supply and demand is, therefore, repetitive.

However, the farm gate milk price is not flexibly operated irrespective of price changes by seasons and usage. Price competitiveness is limited because the price has been continuously increased by farmers who claim that it reflects increased production factors such as labour cost, feed cost and others in the prices.

Accordingly, an improvement in the dairy system, by which the responsible non-governmental organisation would be empowered to determine, autonomously, the prices and the control mechanisms of demand and supply, is under planning.

The proportion of feed cost to milk production cost account for 48 per cent (based on 1994). Since major materials for assorted feed production depend on imported feed grains greatly, the price of world feed grains influence the cost of raw milk production to a large extent.

The trend to import dairy products such as milk powder, cheese and milk preparations is increasingly in line with the implementation of the WTO agreement. Especially import of imitation milk powder (others excluding whey: HS 0404.90.000) has been drastically increased; thus, domestic milk powder was consumed less and stock increased**.** Therefore, to cope with such injury to the domestic dairy industry, an investigation by the import injury relief system is being undertaken.

b) Short term outlook

While milk consumption has remained stagnant since last autumn, stocks of domestic milk powder have accumulated due to the yield increase per head caused by genetic improvement of milk cows and due to the increase in import of dairy products **-** for instance, imitation milk as substitute for skimmed milk powder **-** since the beginning of 1995**.** Many dairy farms and milk processing companies are in difficulties. It is projected that it will take considerable time for supply and demand of milk to be stabilised.

With regard to supply and demand of milk in 1996, the supply of domestic milk is projected to substantially decrease compared to last year. The situation of oversupply is projected to continue until the end of this year.

Production (tonnes)

	1995			**1996**				
	3rd quarter	**4th quarter**	**Whole Year**	**1st quarter**	**2nd quarter (estimate)**	**3rd quarter (forecast)**	**4th quarter (forecast)**	**Whole year (forecast)**
Milk	483 644	491 044	1 998.554	524 737	543 394	493 317	508 941	2 070.039
Butter	588	761	3 270	1 136	831	913	913	3 793
Cheese (natural cheese)	3 701	2 744	12 056	3 379	2 470	2 802	2 802	11 453
Skim milk powder	1 857	4 702	12 970	7 200	4 063	5 588	5 587	22 438
Whole milk powder	484	1 073		1 794	1 265	1 407	1 408	5 874
Cream	2 909	4 733	2 937	6 715	4 195	6 167	6 167	23 245

Stocks (at the end of each month, tonnes)

	1995		1996					
	Sept.	**Dec.**	**March**	**April**	**May**	**June (est.)**	**Sept. (for.)**	**Dec. (for.)**
Butter	537	604	907	864	876	797	784	882
Cheese	1 128	1 378	1 245	1 607	1 583	1 575	1 641	1 716
Skim milk powder	2 907	5 200	10 618	11 543	11 950	11 642	11 500	11 800
Whole milk powder	621	1 365	2 514	2 792	3 321	3 145	3 000	3 200

Herd size and milk yield

	Units	1993	1994	1995	1996
Number of dairy cows	head				
Total		553 343	552 139	553 467	558 680
2 years and older		319 664	316 404	318 051	324 027
Number of dairy farms	household	28 219	25 667	23 519	22 725
Average herd size per farm household	head/household	19.6	21.5	23.5	24.6
Yield of 1 dairy cow	kg/cow/year	5 665	5 729	5 836	6 058 (‘96.1-5)

Trade of dairy products

Exports: Most of the Korean dairy products (items listed below) have not been exported to other countries.

Imports:

(Units: tonnes, thousand US$)

		1995		1996			
				'96.1 - 5		Whole year (forecast)	
		Volume	Value	Volume	Value	Volume	Value
Butter	Total	498	1 145	279	796	483	1 214
	- New Zealand	428	872	229	614		
	- France	53	235	-	-		
	- Canada	16	37	16	39		
	- Others	1	1	34	143		
Cheese	Total	11 000	33 942	5684	18 925	13 495	44 769
	- Australia	4 663	11 780	1 711	4 849		
	- USA	3 040	11 336	2 159	7 991		
	- Denmark	1 227	4 666	759	2 859		
	- Others	2 070	6 160	1 055	3 226		
Skim milk powder	Total	7 044	14 858	458	1 034	1 354	3 056
	- Ireland	2 931	6 104	300	649		
	- Germany	800	1 718	-	-		
	- UK	767	1 657	-	-		
	- Others	2 546	5 379	158	385		
Whole milk powder	Total	485	1 062	70	176	475	1 206
	- France	228	473	36	91		
	- France	126	289	-	-		
	- UK	50	115	-	-		
	- Netherlands	81	185	34	85		
	- Others						

Consumption of dairy products

	1995		1996 (forecast)	
	tonnes	kg/capita	tonnes	kg/capita
Milk	1 338 919	31.0	1 437.531	31.8
- liquid whole milk for human consumption	1 388 919	31.0	1 437 531	31.8
Cheese	13 881	0.30	14 575	0.32
Butter	2 755	0.06	2 507	0.06
Skim milk powder (Total)	17 568	0.39	15 460	0.34
- for human consumption	17 568	0.39	15 460	0.34
- feed use	-	-	-	-
Whole milk powder	2 619	0.06	1 938	0.04

Note: Production plus imports equals consumption (of butter, skim milk powder, whole milk powder).

Producer price for milk

	Units	1994 [1]	1995 [1]	1996 [2] (forecast)
Manufacturing milk	₩/kg	394	414	423
Milk for consumption	₩/kg	394	414	423

Note: [1], [2] are prices for grade 4 and grade 3, respectively.

Consumer price for milk products

(Units: Won)

	Quality or type	1994	1995	1996 (forecast)
Milk	200 ml	300	330	340
Butter	450 g	3 130	3 450	3 450
Cheese	200 g	1 710	1 710	1 710
Skim milk powder	1 kg	7 000	7 000	7 000

ARGENTINA

1. Developments of dairy policies since 1st August 1995

a) Domestic policy

Government does not regulate prices or production quotas. These are us dairy products promotion and consumers do not receive any kind of subsidies for consuming those products. In other words it's a free market economy.

b) Trade policy

Argentina does not apply subsidies to exports.

2) Developments of the dairy product markets since 1st August 1995

a) Development of the factors which had an impact on the dairy sector and quantitative impacts on production, consumption, trade and prices of the various types of dairy products.

Power whole milk production raised 43 per cent from 1994 to 1995 and in the same period power skim milk climbed a 37 per cent.

UHT milk production increased by 39 per cent during the above-mentioned period and butter production climbed an 18 per cent.

On the other hand yogurt production from 1990 to 1995 increased of 175 per cent.

A terrible drought hit Argentina from 1995 winter til fall 1996 (end March), which had a significant impact on milk production. There was only a 1 per cent increment in milk production comparing 1996 to 1995 first semesters.

Dairy products exports raised 22 per cent, comparison the first quarter at 1996 to 1995.

b) Short term outlook for the dairy markets

It is estimated that milk production will reach the 1995 level or could eventually raise 1 or 2 per cent. This is due the drought previously mentioned, that still continues in some regions.

This caused a stable trend in terms of prices from 1994/95 summer till the end of fall 1996. After this month prices started to climb approximately a 5 per cent, because enterprises need to respect their international contacts.

The price increase is also due to milk quality (higher quality is better paid to farmers).