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Milk production for the world's major dairy countries is continuing to expand and dairy surpluses are expected to plague policy makers in many of these countries throughout the 1980's. Although milk cow numbers have trended downward by some 5 percent since the mid-1970's, technological improvements in breeding, feeding, housing, and significant changes in herd structure have resulted in sharp gains in productivity. Yields per cow are up about 15 percent overall with much sharper gains registered in France, India, the United Kingdom, Italy, Ireland, and the United States. Substantial increases in productivity are expected in these countries as well as many others during the next several years.

Increases in consumption of fluid milk and manufactured dairy products have not kept pace with the expansion in milk output. Considerable uncertainty surrounds projections of consumption over the next five years as worsening economic conditions have dampened consumer demand for dairy products. Even with an improved world economic situation which would bolster the upward trend in cheese consumption and increase the use of dairy products in developing countries, the overall outlook is for milk production to grow faster than available outlets.

Many uncertainties cloud the future, such as the need of the USSR to import dairy products on a large scale as they have the past four years. Some observers feel that the USSR and other Eastern bloc countries will continue to have considerable difficulty in producing sufficient dairy and livestock products to meet the demands of their people. If that is the case, then the East European countries may provide an important export market for dairy products over the next several years. However, while poor grain crops and forage dramatically curtailed Soviet milk output during the past few years, some recovery in milk output is apparent this year and the Soviets have ambitious targets for expanding milk production in the future.

Other uncertainties which will impact sharply on world dairy product markets are the willingness of the European Economic Community, the world's largest milk producer and international trader in dairy products, to dispose of heavy supplies of surplus skim milk internally, and the willingness of the United States to continue holding large stocks of butter, cheese, and skim milk powder.

Now for a brief glance at world dairy supplies and the short term outlook for next year. Milk output for the 36 selected countries will total around 387 million metric tons or 853 billion pounds this calendar year, up nearly 1.7 percent from 1981. For 1983, prospects are for a comparable

year-to-year gain of about one and one-half percent. Although annual increases may slow for the European Community and the United States, Soviet milk production appears to be turning the corner on a 4 year down trend.

TABLE 1 - Fluid Cow's Milk Production

<u>Major Producers</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
			(Estimated)	(Projected)
			(In million metric tons)	
EC-10	104.7	104.8	107.1	108.6
USSR	90.9	88.5	89.5	91.3
United States	58.3	60.2	61.3	62.4
Oceania (Aust./N.Z.)	12.4	12.0	12.0	12.0
Other countries*	114.4	115.1	117.0	118.5
Total	380.7	380.6	386.9	392.8

\* Includes 22 other major milk-producing countries.

Stocks of butter and nonfat dry milk (NFDM) have expanded sharply for the European Community and the United States this year. By the end of 1982 world inventories of butter may reach 763 thousand metric tons and nonfat dry milk, 1,392 thousand tons, respective gains of 20 percent and 31 percent from stock levels at the end of last year. Considering the anticipated expansion in milk output next year and the likelihood that demand for dairy products will not strengthen very much, leaves us with the probability that butter and NFDM stocks will continue building in 1983 unless some dynamic measures are initiated to reduce the oversupply.

TABLE 2 - Year End Stocks of Dairy Products\*

<u>Country</u>	<u>Butter</u>		<u>NFDM</u>		<u>Cheese</u>	
	<u>1981</u>	<u>1982</u>	<u>1981</u>	<u>1982</u>	<u>1981</u>	<u>1982</u>
	(In thousand metric tons)					
EC-10	240	306	352	424	534	528
United States	195	243	404	608	443	517
Oceania (Aust./N.Z.)	84	94	89	130	62	73
Non-EC West Europe	24	26	24	22	149	139
Japan	41	37	40	42	5	8
Canada	20	34	43	53	61	55
Mexico	-	-	72	80	-	-
Other <sup>1/</sup>	30	23	39	33	42	46
Total	634	763	1,063	1,392	1,296	1,366

\* Year end stocks for 1982 are estimated

<sup>1/</sup> Includes 13 other selected dairy product producers.

Currently the EC is moving to reduce its butter and NFDM intervention stocks. The Community may reinstate its export subsidies on butter sales to the USSR which were eliminated in December 1980. Also, the EC plans to subsidize the domestic sale of 120,000 metric tons of Christmas butter this year to the general public as well as an additional unspecified amount for domestic welfare and social programs. Subsidized sales of NFDM for animal feed could also help to reduce the huge surplus stocks of that product.

The United States, meanwhile, is expanding its donation programs to needy persons overseas. Under the P.L. 480 Title II and the recently reinstated Section 416 programs, considerable amounts of NFDM will be shipped abroad. Early estimates indicate that for fiscal year (FY) 1983 foreign donations may be as much as 300,000 metric tons of NFDM compared to 102 thousand tons in FY 1982. Extensive domestic donations to the needy are also helping to curb the burgeoning government stocks. For FY 1982, 64 thousand tons of cheese, 9 thousand tons of butter, and 3 thousand tons of NFDM were distributed under special programs along with the normal program outlets of 79 thousand tons of NFDM to schools, military, V.A. hospitals, prisons, etc. Some expansion in the special donations program in addition to the normal programs is planned for FY 1983.

### World Dairy Product Prospects

The world output of butter and anhydrous milkfat (mostly butteroil) for 1982 at 6,099 thousand metric tons is up around 3 percent from a year earlier. However, butter consumption has slackened, resulting in the rise in stocks by year's end. International trading of butter is down this year as exports from the European Community have fallen. In 1981 there was relatively strong demand from the Middle East and Eastern Europe but butter sales to those markets dropped sharply this year. Butter prices on world markets during first half 1982 ranged between \$2,125 to \$2,250 per metric ton, free-on-board (f.o.b.). This fall, prices have been quoted in the \$2,000 to \$2,050 per ton range. For butteroil, prices averaged around \$2,400-2,500 per ton last spring but have since declined along with butter prices. Some of the weakness in butter prices, as with other dairy products, can be accounted for by the appreciation of the United States dollar, but ample world supplies and reduced demand are also factors behind the "softening" in butter prices.

The NFDM picture is even less encouraging. Production this year is up nearly 4 percent from 1981 levels. Although consumption appears to be somewhat higher, stocks are building, particularly in the EC and the United States. International market prices for the skimmed milk powder had reached the \$1,100 per ton f.o.b. level in late 1980 and fluctuated in the \$1,050-1,100 per ton range throughout 1981. During first half 1982, prices declined some \$50 per ton reportedly because of the strengthening in the U.S. dollar. However, by mid-1982 the market seemed somewhat unstable. Prices since then have dropped significantly and currently are being quoted in an \$800-850 per ton f.o.b. range. Purchases of NFDM by such traditional importers as Mexico and Japan appear to have been made at much lower average prices this year than a year ago.

For cheese, world production is up about 3 percent this year and consumption is expected to rise by a comparable amount. Stock levels worldwide will be a little higher by year's end because of the sharp gain in U.S. Government-owned inventories. The outlook for next year is for only a 1 to 2 percent rise in world cheese output and consumption. Prices for cheese have been much more stable on world markets this year than for butter and skim milk powder. International prices for cheddar cheese have fluctuated around \$1,750 per ton f.o.b. since early 1982. Reportedly competition on world cheese markets has increased in recent months as traders look with concern at U.S. stock levels and an indication that the United States is preparing to sell surplus cheese abroad. With the exception of 9,400 metric tons exported to Poland in 1981 and 1982, no CCC stocks have been sold abroad since the mid-1960's.