

Finger Pointing At U.S. Dairy Forum

BY JOYCE BUYP

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PHOENIX, AZ — Key leaders in the nation's dairy industry gathered in Phoenix in early February, for updates on industry issues and sharing policy ideas.

Hosted at the Pointe at Squaw Peak, the U.S. Dairy Forum focused on ideas ranging from milk marketing orders, drought and production costs to restructuring of the foods industry, nutrition and advertising.

Especially timely, in light of dissension among participating nations in the current round of GATT trade talks, was a panel of international representatives addressing the world dairy situation. Participants represented Canada, New Zealand, France and the United States.

Richard Tudor Price, Agriculture Canada, sees a new mood in world trade against production subsidies and excess product "dumping" on the world markets. Current world market prices, especially for skim milk powder, are high, reflecting several factors which affected production and supply.

The European Economic Community imposed quotas in 1984, and further reduced them two years later, while selling at a loss huge volumes of butter and skim milk powder which had accumulated with high subsidy prices. Meanwhile, New Zealand has experienced two severe drought seasons back-to-back, further cutting world powder supplies.

The Canadian warned that current high powder prices are tem-

porary; the EEC is raising quota by one million tons and New Zealand will eventually have favorable weather. Cost of producing milk in New Zealand is about one-fourth the cost in the U.S.

"Treat your current exports as a windfall," advised Price, "and not a basis for long-term investment."

Canada's dairy industry is similar to the U.S. in several respects, according to panelist Price. Like the U.S., Canada has limited dairy imports, about three percent of production.

Processors have a guaranteed market for butter and skim milk powder to the Canadian Dairy Commission. However, if the Canadian government resells those products at a loss, the difference is charged back to Canadian dairy producers, not the treasury. Support prices to producers and make allowances to processors are based on costs.

Greatest difference is in the Canadian quota system, with quota amounts bought and sold like other farm capital assets. Producers do receive a direct federal payment on industrial (manufacturing) milk, based on butterfat, currently about \$2.20/cwt. on 3.5 test milk. Fluid milk is controlled by the provinces, each using quota and pricing systems.

Upshot of the programs is a fairly stable production, and Canada remains a relatively small "player" in the world's dairy trade. With less subsidization in competing countries, Canada could someday become more world market oriented. Tradeoff would be that domestic markets

would be more accessible to foreign competition.

Robert De Wilde, France, outlined various programs of the European Economic Community in the past two decades aimed at controlling dairy production. Included have been cow slaughter subsidies, diversion programs, and the 1984 quota introduction.

De Wilde also cited EEC quotas, the New Zealand drought and U.S. diversion and buyout programs as contributing to reduced world market stocks and higher international prices.

"The EEC has played more than its part in balancing the world dairy markets," he observed. World market volume is 25 million tons milk equivalent, and the EEC has taken 15 million tons out of production.

"It is hard," De Wilde added, "to explain to our farmers why other countries can increase production, while they must reduce theirs."

Nigel Mitchell, New Zealand Dairy Board, told Forum participants that the U.S. dairy industry has been insulated from international market developments.

"It is to me ironic that the dairy industry in the United States has such relatively little knowledge of

global dairy developments and issues," said Mitchell. He predicted that forces such as increasing integration of the world's major economies and new technology, will change that.

"It will not be so easy, I would say impossible, for the U.S. dairy industry to be insulated cosily from the effects of these changes in the way it has in the past," Mitchell added. He cited the petroleum industry as an example of free world market trading, with Middle East production changes impacting immediately on American consumers and oilmen.

According to the New Zealander, world dairy trade is tightly regulated among participating nations with quotes, tariffs, and regulatory measures. Only two to three percent of total world milk production, 30 billion pounds, is open to true competitive pricing.

New Zealand, he adds, is unique in that it exports 85 percent of its dairy production, and therefore highly susceptible to price swings from excess product "dumping." With surpluses reduced, and the USSR emerging as a stable customer of dairy products, Mitchell anticipates a true world market picture emerging, driven by supply and demand.

World market butter prices continue to be below domestic support prices in the U.S., and Mitchell suggests an adjustment in the competitive value of butterfat to non-fat powder under the support program. That, he says, would bring the U.S. dairy industry into closer harmony with the international economy.

William Paddock, Foreign Agricultural Service of USDA, reviewed U.S. dairy exports of the past two decades. Total value climbed in that time, but took a surge in 1988 as skim powder prices strengthened. For the first eleven months of 1988, dairy product exports were valued at \$525 million, up 14 percent over 1987.

Eleven countries purchased a total 88,785 million tons of dairy products from the CCC in fiscal 1988, about two-thirds of that milk powder. Major buyers included Algeria, Jamaica, India, Iraq and Mexico.

Paddock noted that in mid-1987, powder has selling in northern European ports between \$800 and \$900 a ton, about half the current price. Casein prices jumped from \$1 to as high as \$2.55/pound. Since the EEC has traditionally accounted for 40 to

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Atlantic Field Representative Andy Potocek, right, makes a farm visit with Steve Kurtz, QC Inc., to calibrate a milk bulk tank.

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