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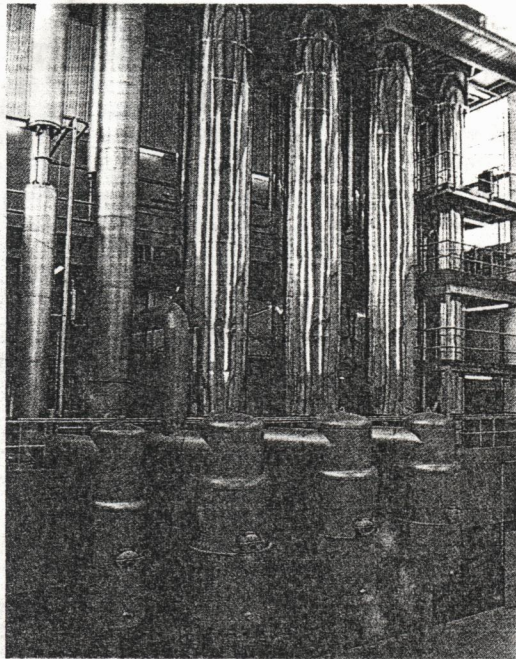
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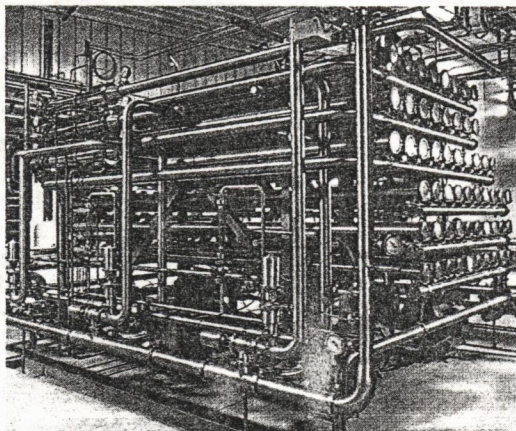
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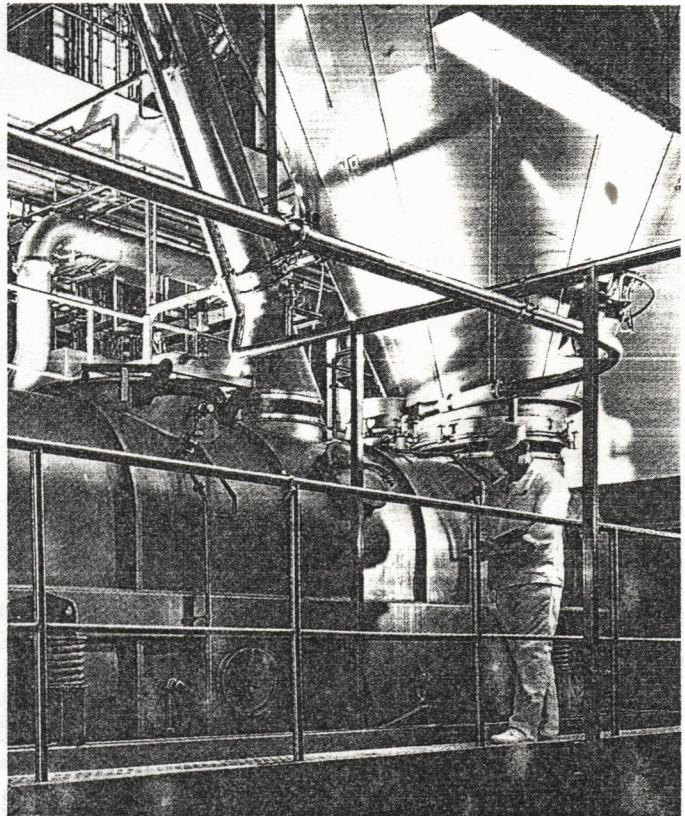
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The world market for preserved milk

By Preben Mikkelsen*

On 15 December 1993 after 7 years of negotiations the GATT-agreement concerning liberalization of world market trade was concluded. It was signed on 15 April in Marrakesh and becomes effective as of 1 July 1995. For the first time agricultural products are included in the agreement. Unfortunately, the result for the agricultural sector is unsatisfactory, as the future world market trade is extensively regulated by the agreement instead of the original purpose being pursued, i.e. to liberalize the world market trade with agricultural products, including dairy products. However, in this article we shall forget the GATT agreement for a short while and instead look back on the world market trade in 1993.

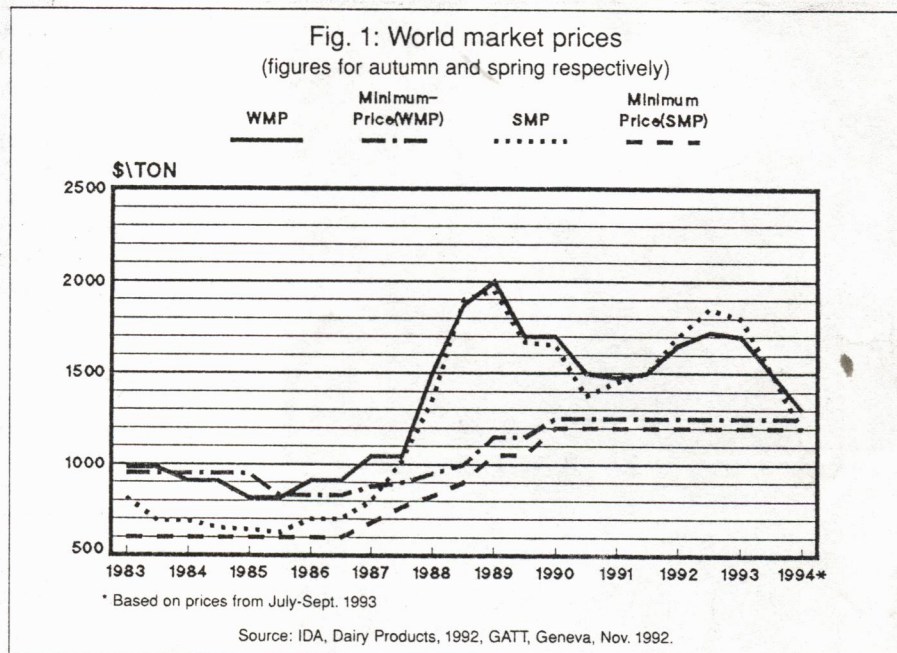
Heavy price falls in 1993

Already towards the end of 1992 skimmed milk powder and whole milk powder prices showed a declining tendency which was widely believed to be a temporary phenomenon due primarily to the low stocks. Unfortunately, in spite of continuously low stocks, prices have not reached the 1992 level at all.

On the contrary, as can be seen from fig. 1 SMP and WMP prices have taken a nosedive in 1993, and for the first time in a number of years prices have come alarmingly close to the GATT minimum prices in 1994 for the two products concerned.

No simple explanation alone can be given for the 1993 price fall, but two factors in particular might help to account for it.

Firstly, stocks have continued to be emptied during 1993. The New Zealand stocks of skimmed milk powder have been halved from 107,000 tonnes to 43,000 tonnes. Table 1 overleaf shows that the net quantity of products removed from stock in 1993 has been 34,000 tonnes. Consequently, extra quantities have been supplied from stocks to the market,



and simultaneously, for the first time in several years production has not fallen but risen slightly (statistics do not comprise the East European countries, and it has not been possible to obtain information for 1993 for these countries) resulting in an excessive supply of SMP on the market and of course contributing to squeezing prices.

Furthermore, demand has been declining; traditional customers have been reticent and have demanded less quantities in 1993 than in 1992. Together these factors have resulted in falling prices for SMP and WMP in 1993. Moreover, the price fall has been maintained by a very large production of preserved milk in New Zealand at the end of the year, which is due to the fact that conditions for milk production in New Zealand in 1993 have been perfect, but have resulted in a surplus production of milk which among other things has been used for milk powder. The New Zealand milk production was increased by 11% in 1992/93. Not least due to this surplus in milk

end of the year there are no immediate prospects of price increases in 1994, although there are certain indications that prices have stabilized a little towards the end of the year. Thus an improvement of the prices can not be expected until July-August 1994 at the earliest, when the European peak season is over.

Production of skimmed milk powder

It appears from table 1 that production of SMP in 1993 has increased in the countries from which we have received information. That means that apart from the East European countries SMP production has increased, which is the first time for a number of years. The EU, the USA and New Zealand where production cuts have been the standard in the last few years have seen a small increase in production of 1-3%. Australia has continued the development of the last couple of years and has increased production by almost 20%

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to 183,000 tonnes in 1993. It is also worth noticing that the Japanese production has increased by almost 8% and that Japan is now the third largest producer of SMP in the world. The largest increase in percentage in the production of SMP has taken place in Sweden though from a very low level. The only countries which have witnessed production cuts from 1992 to 1993 are Finland and Austria, and they can only be described as marginal producers. Apart from the East European countries SMP production has increased by 100,000 tonnes in 1993 as compared to 1992. Even if it is reasonable to expect a fall in production in the East European countries, the total result is that SMP production has either increased a little or has at least been kept at a stable level in 1993. This is a new development, compared to the period 1990-92 when production of SMP fell by 10% a year. Table 2 shows that the development in stocks has been more restrained in 1993 than in 1992 when total stocks were more than halved. However, the largest exporting countries such as the EU, the USA and New Zealand have continued to empty stocks. This has caused total stocks to fall by 11.5% in 1993 to 262,000 tonnes in spite of increases in stocks in Japan, Canada and Australia. The result of changes in the production development and the constant reduction in total world stocks has been an almost equally large supply of SMP in 1993 than in 1992. As demand has been declining in 1993 the result has been falling world market prices. However, stocks are now likely to have reached their absolute lowest level, and consequently any rise in demand should lead to price increases.

World market trade in preserved milk products

Total world trade in preserved milk products has fallen by 5.5% in 1993, causing sales on the world market to fall by 139,300 tonnes, see table 3. However, the development has varied for the three product groups SMP, WMP and condensed milk. Trade in WMP is more or less unchanged from 1992 to 1993, condensed milk has increased slightly, whereas the sale of SMP has dropped by approx. 15%. This development is in contrast to the development in 1992 when SMP sales increased by 6.5% whereas WMP sales fell by 5.5%.

There has been a minor change in the market shares for WMP, as the

Table 1: Major SMP producing countries
(1,000 tonnes)

	1992	1993*	1993/1992
EC-12 (+ former GDR)	1,162	1,185	102.0
USSR/CIS	263	0	0.0
USA	396	420	106.0
New Zealand**	122	126	103.2
Poland	150	0	0.0
Czechoslovakia	65	0	0.0
Australia	153	183	119.6
Canada	53	54	101.3
Japan	207	222	107.4
Sweden	30	36	120.7
Finland	15	15	97.3
Switzerland	25	25	99.2
Austria	28	25	90.4
- Remaining Western Europe total	98	101	103.0
Total	2,669	2,291	85.8
Total - Eastern Europe	2,191	2,291	104.6

* Estimate, ZMP - Europamarkt - Dauermilch, no. 3-4. 1994.

** ZMP - Europamarkt - Dauermilch, no. 3-4. 1994.

Source EC-Commission, DG 4, Jan. 1994.

Table 2: SMP stocks (1 January)
(1,000 tonnes)

	1992	1993	1994*	1994/1993 %
EC (intervention)	421.0	47.0	37.0	78.7
USA (CCC-uncommitted)	70.0	37.0	3.0	8.1
New Zealand	58.0	114.0	43.0	37.7
Australia	17.0	21.0	30.0	142.9
Canada	15.0	6.0	14.0	233.3
Japan	32.0	32.0	45.0	140.6
Sweden	2.0	5.0	4.0	80.0
Finland	11.0	7.0	5.0	71.4
Switzerland	4.0	6.0	6.0	100.0
Austria	3.0	21.0	30.0	142.9
- Remaining W. Europe	20.0	39.0	45.0	115.4
Total	633.0	296.0	262.0	88.5
EC stocks, % of total	66.5	15.9	14.1	88.9

* Preliminary figures

Source EC-Commission, DG IV, Jan. 1994.

EU market share has been reduced from 55.5% to 54.9%. It is primarily New Zealand which has won the big prize with a surge in exports of approx. 9%, while exports have been reduced in a number of other countries, including Australia, the USA and Canada. It is no surprise that exports of WMP from New Zealand have increased, as considerable investments have been made in this sector over the past few years. Total trade in SMP has been reduced by 15% in 1993 as compared to 1992. The major loser has been the EU, where the total market share has fallen from 37.8% to 33.6%. The fall corresponds to a total reduction of approx. 90,000 tonnes SMP from the

EU. However, exports have also dropped notably in a number of other countries, including among others New Zealand and the EFTA countries. In the USA, however, exports of SMP have risen from 100,000 tonnes to 125,000 tonnes corresponding to an increase of 25%. The development in SMP exports clearly shows the importance of the Dairy Export Incentive Programme. Since 1991 the US share of the world market has increased from 7% to 14%. It is no exaggeration to say that for condensed milk the EU is the all-dominating operator. In 1993 the EU market accounted for 76.1% which is a small increase as compared to 1992.

What to expect of the future?

In the short run there are no great expectations for the market for preserved milk products. Partly because there are no signs that demand will change noticeably, and partly because New Zealand produced at high speed in the last months of 1993. Moreover, the EU has traditionally produced large quantities of preserved milk in the first months of the year, and therefore in the first six months of 1994 prices are expected to stabilize at the low level they reached at the end of 1993.

It is to be hoped that the situation will improve in the course of the year, and with a view to the small stocks all over the world I'll allow myself to be optimistic for the second half of 1994, and believe in a rise in the world market price for preserved milk products. However, should the climate in New Zealand create the perfect background for production of milk once more, things may look different.

The GATT agreement becomes effective as from 1995 whether one likes it or not. Unfortunately, the result will not be a general liberalization of the world market for preserved milk products, as the trade will in fact be regulated according to trade patterns which were valid in 1986-90. However, preliminary calculations show that the quantities of subsidized exports to the world market will be reduced. Such a reduction should result in an increase in world market prices, but as the agreement is carried out in steps up until year 2001 its importance for the prices on the market for preserved milk products will probably be limited in the first years.

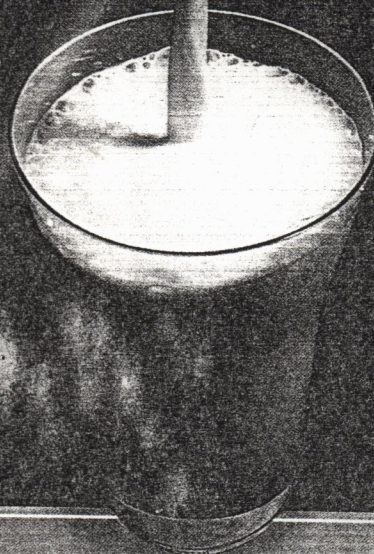
It will no doubt be very exciting to follow the consequences of the GATT agreement, but I would like to end this article expressing the hope that prices for preserved milk products will rise towards the end of 1994, and perhaps also hoping that the New Zealand climate will not be as perfect in 1994 as it was in 1993 - at least for milk production. ■

Table 3:
International trade in preserved milks
(1,000 tonnes)

	1992	1993*	1993/92
WMP total	1045	1048	100.2
- From the EC	580	575	99.1
- Other countries	465	473	101.7
- EC share, %	55.5	54.9	
SMP total	1044	892	85.5
- From the EC	390	300	76.8
- Other countries	654	592	90.6
- EC share, %	37.4	33.6	
Condensed milk total	452	462	102.3
- From the EC	343	352	102.6
- Other countries	109	110	101.1
- EC share, %	75.8	76.1	
Total trade	2542	2403	94.5
- From the EC	1314	1227	93.4
- Other countries	1228	1176	95.7
- EC share, %	51.7	51.1	

* Preliminary figures
Source EC-Commission, DG IV, Jan. 1994.

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