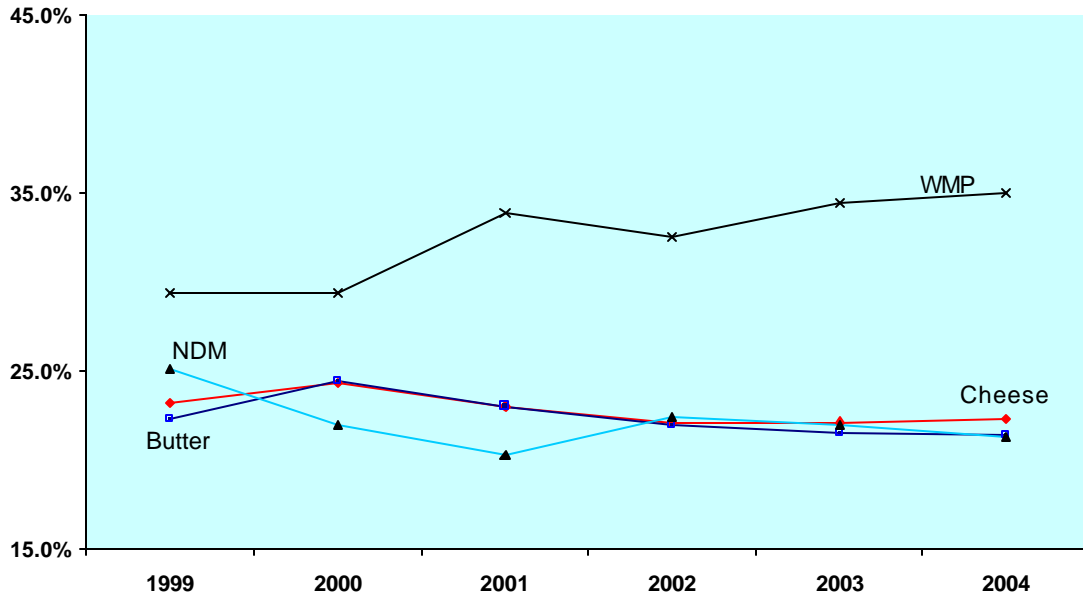


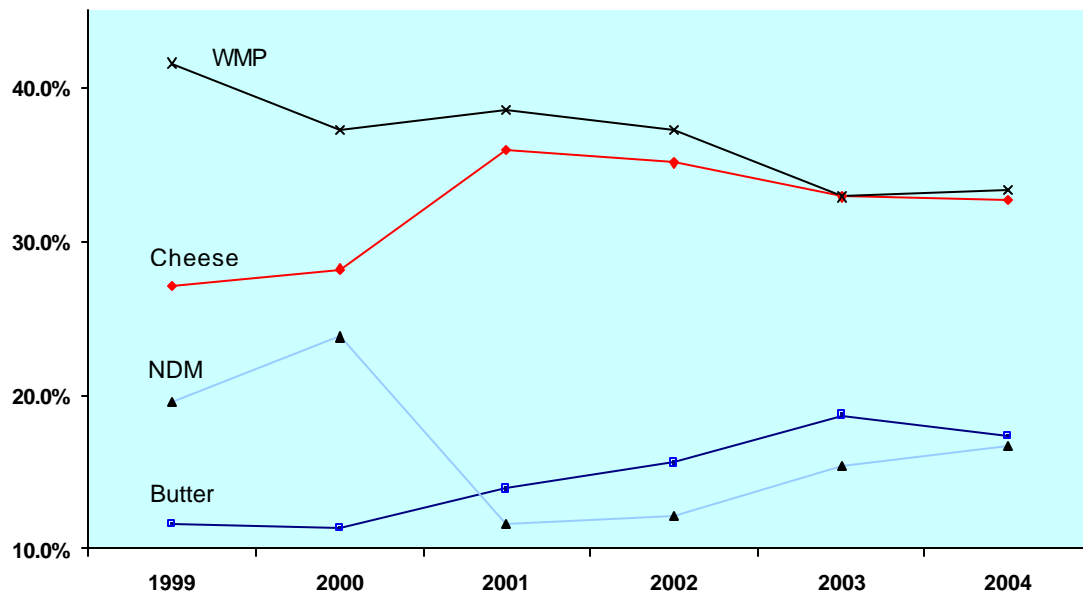


Dairy: World Markets and Trade

Oceania Exports: Product Mix As A Percent of Total Exports



EU-15 Export: Product Mix As A Percent of Total Exports



Cover Graph Comment:

The cover graphs highlight some key trade trends of the major dairy exporters in Oceania and the EU-15. In Oceania, where exports of the major commodities have been growing at an annual average rate of 5.8 percent over the 1999-2004 period, it is evident that the focus remains on the development of whole milk powder (WMP) markets. The proportion of WMP exported has grown from below 30 percent in 1999-2000 to around 35 percent in 2004. In contrast, the proportion of nonfat dry milk (NDM) and butter exported has declined by 3-4 percent over the same period. Cheese has remained relatively steady. It is likely that exports of WMP will continue to gain a more prominent role given the fast paced economic growth being experienced in such Asian markets as China, Malaysia, and the Philippines. Collectively, these import markets have expanded by 156,000 tons since 1999 through 2004. In addition, the potential to add value to WMP by packaging in retail packs is greater than NDM, which tends to be sold primarily in bulk for ingredient and recombination use. In the future, it is likely that the proportion of WMP exports from Oceania will probably grow at the expense of NDM and butter.

In the EU-15, dairy trade dynamics are much more complex due to the extensive use of export subsidies and the limitations imposed on these exports by the Uruguay Round. Consequently, as a percent of the major commodities exported, WMP has been declining with the losses being offset by gains in cheese exports. Although the UR agreement limits EU subsidized cheese exports to 321,300 tons it is evident that non-subsidized export sales of cheese have been rising rapidly from an estimated 50,000 tons prior to 1999 to over 100,000 tons currently. This trend is likely to continue but forecasting total volume exports of all dairy commodities will be difficult due to the impact of CAP reform and the enlargement of the EU to include 10 new members. Current projections by the European Commission point to a continuing structural surplus of dairy products within the EU-25 but with a significant improvement in market balances by 2010. Consequently, exports of cheese, butter, and NDM as measured for the EU-25 will probably start to decline in 2006-2007 as domestic consumption absorbs a greater proportion of quota limited milk production. This consumption will be reinforced since the income effects in accession countries are expected to stimulate a substantial increase in per capita consumption – more than 20 percent by 2010 - of cheese and dairy products.