



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Scheduled Report - public distribution

Date: 10/20/1998

GAIN Report UK8049

## **United Kingdom**

### **Dairy**

**1998**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
London [UK1], UK

## Table of Contents

Executive Summary .....	2
Commodity Analysis .....	3
Fluid Milk .....	3
Cheese .....	5
Butter .....	6
Nonfat Dry Milk .....	7
Dry Milk .....	7
Milk, Fluid PS&D .....	8
Prices Table .....	9
Trade Matrix .....	10
Cheese PS&D .....	12
Prices Table .....	13
Trade Matrix .....	14
Butter PS&D .....	16
Prices Table .....	17
Trade Matrix .....	18
Milk, Nonfat Dry PS&D .....	20
Trade Matrix .....	21
Milk, Dry PS&D .....	23
Trade Matrix .....	24

## Executive Summary

UK milk production is expected to fall in 1998, a reflection of declining milk prices and the influence of the near record superlevy paid on the 1997/98 quota year's production. Output is also forecast to continue to decline in 1999 as low prices are expected to continue into much of that year. Exports of fluid milk are recovering in 1998 as the influence of BSE subsides. The resumption of significant cross border trade with the Republic of Ireland is expected to lead to increases in exports to 100,000 MT in both CY1998 and CY1999.

The reduced supply of milk has lowered industrial usage in 1998. With domestic cheese prices falling proportionally more than those for butter, there has been a tendency for these production cutbacks to occur in the cheese sector rather than that for butter.

The Asian crisis and the Russian financial turmoil is of immediate concern to the UK dairy industry. Domestic prices for dairy products are already on the slide. With potential losses in the Russian export market and no intermediate market for displaced products from both the UK and the EU, further pressure is anticipated on prices for cheese, butter and dry-milk and, subsequently, those for fluid milk.

The difficult market conditions in recent years have prompted much restructuring within the dairy sector. Dairy farmers are reported to be continuing to leave the sector at the rate of 10 percent per annum. The low prices and tight financial situation of many farmers have far outweighed any reaction to the Agenda 2000 proposals which continue to loom in the shadows. Also, an increasing number of farmers who sell their milk through Milk Marque, the UK's largest dairy cooperative, are reported to be looking to sell their milk through alternative sources to increase their incomes - either direct to milk buyers or through producer groups. Milk Marque currently accounts for 42 percent of UK sales of milk (nearly 50 percent of England and Wales). The recent announcement that it had applied for planning permission to build a £50 (USD 82.5) million butter and skimmed milk plant not only highlights the move towards vertical integration in the UK but also the efforts on the part of Milk Marque to retain market share. If given the go ahead, this new plant could, of course, have a large impact on other UK and Irish plants. This type of rationalization and the ongoing reduction in the number of dairy farms is forecast to continue through 1999 and beyond.

## Commodity Analysis

### Fluid Milk

We have reduced our production estimate for CY1998 by 50,000 MT to 14.6 MMT, a decline of 1.5 percent on CY1997. This reduction reflects the lower producer prices thus far in 1998, the subsequent reduction in the number of cows in milk and the less than favorable wet and overcast weather through much of the summer of 1998. As post anticipated, the UK exceeded its quota by 1.1 percent in the 1997/98 quota year (April through March) leading to a near-record superlevy. Although the recent fall in the value of sterling has raised support levels, the threat of another superlevy, combined with continuing low prices, is forecast to lead to a further production fall of 50,000 MT in CY1999.

Trading activity, which began to recover in 1997 as BSE concerns subsided, has continued to increase thus far in 1998. In particular, significant cross border trade between Northern Ireland and the Republic of Ireland has resumed in earnest, with official trade data putting exports to the Irish Republic at nearly 60,000 MT in the first six months of 1998. Although 1997's situation (with Milk Marque shipping some of its low cost milk which it had failed to sell under its auction system to the Netherlands) has not been repeated, market sources continue to report increasing evidence of large volumes of milk being sold under special contract terms to manufacturers in England, Scotland, Northern Ireland and, more importantly, for export to the Republic of Ireland. Hence, exports are now expected to reach 100,000 MT in CY1998. Exports are currently forecast to remain constant in 1999 as trading patterns begin to settle.

We have marginally increased our import estimate for CY1998 to 155,000 MT to reflect official government trade statistics. These show an increase in import volumes in the first six months of 1998, particularly from Denmark. However, this increase is thought to have been largely currency driven. With many market commentators suggesting that the recent decline in the value of sterling indicates that it has reached its peak, this increase in volume is not currently anticipated to continue through the remainder of 1998 and into 1999. Hence, imports are currently forecast to fall back to 150,000 MT in CY1999.

Consumption of liquid milk in the UK continues to slowly decline. This is largely a reflection of the steady consumer shift away from doorstep delivery to less regular supermarket purchases. As well as wasting less when fresh milk is not home delivered every day, some may simply do without if they run out rather than make a special trip to the supermarket. There is also a trend away from full-fat milk towards purchases of semi-skimmed and skimmed milk. The increased purchases of the latter two, associated with increasing consumer demand for "healthier" foods, is not fully replacing the reduced sales of full-fat milk.

Of note is a recent study undertaken by private consultants on behalf of the Milk Development Council (MDC) and the National Farmers Union (NFU) on the subject of milk advertising. It recommended extending a previous proposal for a £6 (USD 10) million per annum promotional campaign, advocating spending between £10 (USD 16.5) million and £15 (USD 25) million per year. The consultancy estimated that such a program would increase liquid milk sales by 2.25 percent or equate to a 0.24 pence (40 cent) per liter benefit to producers. The campaign would yield £4.76 (USD 7.85) for every £1 (USD 1.65) spent. In 1996/97 milk advertising totaled just £2.7 (USD 4.5) million whereas the UK cereal industry reportedly spent £100 (USD 165) million and the soft drink industry £60 (USD 99) million. The NFU is now circulating the report to its members, following which (if farmers back it) the UK Government will be asked to carry out a producer poll on giving the MDC powers to increase the levy on dairy farmers (the contribution from processors is yet to be finalized). Subject to this being successfully approved, the annual campaign would go ahead. With the

expectation being that such a campaign would not begin in earnest until at least CY2000, we have factored down liquid consumption once again in CY1999.

The reduced fluid consumption in 1998, combined with steady manufacturing demand, has seen milk usage for manufacturing purposes increase to 50.6 percent of the UK's 1998 output. The anticipated lower fluid milk output in 1999 is not expected to lead to significant changes in the fluid and factory usage balance due to a further drop in domestic consumption of fluid milk.

## Cheese

We have revised our 1998 production estimates down by 12 MMT to 368 MMT in line with Government Ministry of Agriculture, Fisheries and Food (MAFF) data. Indeed, production has witnessed a downward trend for the past six months - a record since the deregulation of the dairy market in 1994. Anecdotal evidence suggests that these falls have occurred in both cheddar and mozzarella production, the two main varieties produced in the UK. Industry expectation is that this downward trend will continue into 1999 as manufacturers continue to switch towards butter. Hence, we currently forecast UK CY1999 cheese production to reach 365 MMT. Much of the switch from cheese production to that of butter has been, and is expected to continue to be, price driven. Cheese prices have declined significantly more than those for butter through 1998. Again, industry sources do not foresee any significant turnaround in this trend in the near term. Domestic consumption rose on the buoyant UK cheese market in 1998. We currently forecast consumption to remain unchanged in CY1999 at 380 MMT. A recent survey described 45 percent of consumers as "adventurous" cheese eaters who frequently experiment with new cheese varieties. The survey also cited potential market opportunities in high quality convenience products such as lunch box packs, low fat cheeses and organic cheese.

Official trade data for the first six months of 1998 show increased intra-EU exports, while those to third countries have fallen back slightly. We have subsequently revised our CY1998 cheese exports upwards to 54 MMT. The UK cheese export market is now recovering from the trough brought about by the BSE crisis when many countries showed an aversion to UK dairy products. While the financial turmoil in Russia and the Asian crisis are of some concern in the UK, industry sources report potential increases in business with Japan. Therefore, we hesitantly forecast CY1999 cheese exports to reach 50 MMT. Intra-EU imports, particularly from France and Germany, fell in the first six months of 1998 compared with the same period a year earlier. This is thought to reflect the strong value of sterling over this period. With sterling now falling, imports are currently forecast to recover in 1999, supported by consumer demand.

MAFF has been unable to publish official cheese stock data since early 1996 because of a refusal of manufacturers to reveal their inventories. However, according to industry sources there has been a drive through 1997 and 1998 by companies to reduce their stocks due to financial concerns; much of the UK stock was mature product made from high priced milk which was losing its value as milk prices fell. We have, therefore, revised our estimate of year-end 1998 stocks down to 111 MMT. This drawdown in stocks is currently anticipated to continue into 1999. Hence, we have put stocks down a further 30 MMT at 81 MMT at end CY1999.

## Butter

As previously discussed, a preference for butter production over cheese has continued through 1998. Even so, we expect butter production to fall just over 1 percent in 1998 to 137 MMT, a reflection of the marginal reduction in manufacturing use of fluid milk this year. Production is currently forecast to stabilize in 1999.

Export volumes increased sharply in 1997, largely due to increased export demand from Russia and other Eastern European states. However, this market is reported to have largely evaporated in mid to early 1998 with the onset of the Russian financial difficulties. Indeed, this is reflected in the official trade data. With Australia and New Zealand already reported to be increasing their market share outside their traditional markets of crisis-hit Asia, the UK is facing increased competition with other markets. The export outlook therefore currently looks uncertain. While we had already put our CY1998 butter exports lower, with the extent of the Russian crisis becoming more clear, we have decided to further reduce the figure by 2 MMT to 69 MMT. Despite anticipated steady intra-EC exports in 1999, further reductions in third country exports are expected, with total butter exports currently forecast at 65 MMT.

Butter imports are also down in 1998. Official trade data for the first six months of CY1998 show a large drop in imports from Denmark, a questionable disinterest of Belgium in the UK and modest increases from Finland (largely in the form of packet imports). Third country imports are up in 1998, particularly from New Zealand. Current expectations are for this trading volume to remain largely unchanged in 1999.

Domestic consumption of butter continues to fall slowly. As commented in previous reports, this is largely due to increased competition from “spreadable mixtures” which, because they contain vegetable oil, are not classified as butter. This trend is likely to continue in 1999 and we currently forecast domestic butter consumption to reach 172 MMT.

**Nonfat Dry Milk**

NFDM production is expected to decline marginally in 1998 and 1999 as continued high stock levels exert downward pressure on production. The sharply lower export volumes to third countries, particularly Mexico, in the first six months of 1998 added further pressure to the stock levels. However, trading volumes are thought to have recovered due to the recent weakening of sterling and an increase in the export refund. Third country exports are not anticipated to end 1998 as low as the first six month's official trade data might suggest. This will temper any further increase in stock levels. With exports currently expected to recover in 1999 while domestic consumption should be little changed on 1998, a slight drawdown in the large stocks is expected.

**Dry Milk**

Available data suggest a slight reduction in both DM output and domestic consumption in 1998. However, official trade data for the first six months of 1998 indicate a marginal reduction in imports and a doubling of exports compared with the same period in 1997. The UK's DM market has traditionally remained relatively stable. With market sources unable to corroborate the official trade statistics and little or no indication of a dramatic change in the UK DM situation in 1998, we have elected to leave our export forecasts for CY1998 unchanged. Post will continue to investigate the implications of the official trade data. Assuming the trade data is shown to be anomalous, the UK DM market is expected to remain relatively stable in 1999.



**Milk, Fluid PS&D**

PSD Table						
Country:	United Kingdom					
Commodity:	Dairy, Milk, Fluid					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Cows In Milk	2150	2090	2120	2060	0	2030
Cows Milk Production	14830	14830	14650	14600	0	14550
Other Milk Production	0	0	0	0	0	0
TOTAL Production	14830	14830	14650	14600	0	14550
Intra EC Imports	154	154	150	155	0	150
Other Imports	0	0	0	0	0	0
TOTAL Imports	154	154	150	155	0	150
TOTAL SUPPLY	14984	14984	14800	14755	0	14700
Intra EC Exports	86	86	80	100	0	100
Other Exports	2	2	2	2	0	2
TOTAL Exports	88	88	82	102	0	102
Fluid Use Dom. Consum.	6975	6975	6958	6958	0	6940
Factory Use Consum.	7444	7444	7450	7440	0	7435
Feed Use Dom. Consum.	477	477	310	255	0	223
TOTAL Dom. Consumption	14896	14896	14718	14653	0	14598
TOTAL DISTRIBUTION	14984	14984	14800	14755	0	14700
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

**Prices Table**

Prices Table			
Country:			
Commodity:			
Year:	1998		
Prices in (currency)	Pence	per (uom)	Liter
Year	1997	1998	% Change
Jan	24.16	20.11	-16.8%
Feb	23.79	19.92	-16.3%
Mar	23.74	19.84	-16.4%
Apr	20.65	17.59	-14.8%
May	19.71	16.61	-15.7%
Jun	20.86	17.67	-15.3%
Jul	24.03	20.68	-13.9%
Aug	23.84	20.79	-12.8%
Sep	22.94		-100.0%
Oct	20.98		-100.0%
Nov	20.55		-100.0%
Dec	20.25		-100.0%

**Trade Matrices**

Export Trade Matrix			
Country:		Units:	MT
Commodity:			
Time period:	Jan-June		
Exports for	1997		1998
U.S.		U.S.	
Others		Others	
Irish Republic	8596	Irish Republic	57384
Belgium-Lux	492		
		France	42
		Netherlands	31
Other EU	1249	Other EU	2693
Total for Others	10337		60150
Others not listed	676		735
Grand Total	11013		60885

Import Trade Matrix			
Country:		Units:	MT
Commodity:			
Time period:	Jan-June		
Imports for	1997		1998
U.S.		U.S.	
Others		Others	
France	10296	France	10784
Belgium-Lux	6350	Belgium-Lux	6687
Germany	13232	Germany	9205
Irish Republic	40824	Irish Republic	32877
Denmark	1297	Denmark	21631
Other EU	3330	Other EU	434
Total for Others	75329		81618
Others not listed	1		0
Grand Total	75330		81618

**Cheese PS&D**

PSD Table						
Country:	United Kingdom					
Commodity:	Dairy, Cheese					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Beginning Stocks	180	180	172	162	132	111
Production	381	374	380	368	0	365
Intra EC Imports	202	202	200	180	0	199
Other Imports	30	30	30	35	0	33
TOTAL Imports	232	232	230	215	0	232
TOTAL SUPPLY	793	786	782	745	132	708
Intra EC Exports	41	41	40	45	0	42
Other Exports	10	10	10	9	0	5
TOTAL Exports	51	51	50	54	0	47
Human Dom. Consumption	570	573	600	580	0	580
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	570	573	600	580	0	580
TOTAL Use	621	624	650	634	0	627
Ending Stocks	172	162	132	111	0	81
TOTAL DISTRIBUTION	793	786	782	745	0	708
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

**Prices Table**

Prices Table					
Country:					
Commodity:					
Year:	1998				
Prices in (currency)	Pounds	per (uom)	Metric Ton		
Year	1997	1998	% Change		
Jan	2675	2475	-7.5%		
Feb	2700	2475	-8.3%		
Mar	2700	2400	-11.1%		
Apr	2700	2175	-19.4%		
May	2700	2175	-19.4%		
Jun	2600	2200	-15.4%		
Jul	2500	2200	-12.0%		
Aug	2450	2200	-10.2%		
Sep	2450	2200	-10.2%		
Oct	2450	2200	-10.2%		
Nov	2450		-100.0%		
Dec	2475		-100.0%		

**Trade Matrices**

Export Trade Matrix			
Country:		Units:	MT
Commodity:			
Time period:	Jan-June		
Exports for	1997		1998
U.S.	935	U.S.	870
Others		Others	
France	3309		2417
Belgium-Lux	699		669
Germany	2357		3601
Other EU	2835		2713
Irish Republic	6545		6755
Denmark	1209		2246
Spain	766		1247
Sweden	610		304
Netherlands			994
Japan	598		487
Total for Others	18928		21433
Others not listed	2560		2653
Grand Total	22423		24956

Import Trade Matrix			
Country:		Units:	MT
Commodity:			
Time period:	Jan-June		
Imports for	1997		1998
U.S.	5	U.S.	
Others		Others	
France	33677	France	23393
Belgium-Lux	8954	Belgium-Lux	9040
Netherlands	5618	Netherlands	6167
Germany	37486	Germany	14596
Italy	1767	Italy	5804
Irish Republic	31155	Irish Republic	34812
Denmark	6219	Denmark	5974
New Zealand	8605	New Zealand	12115
Other EU	1823	Other EU	2527
Australia	2906	Australia	2321
Total for Others	138210		116749
Others not listed	4423		4173
Grand Total	142638		120922



**Butter PS&D**

PSD Table						
Country:	United Kingdom					
Commodity:	Dairy, Butter					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Beginning Stocks	8	8	8	8	11	8
Production	139	139	138	138		138
Intra EC Imports	65	65	65	52	0	51
Other Imports	45	45	45	52	0	52
TOTAL Imports	110	110	110	104	0	103
TOTAL SUPPLY	257	257	256	250	11	249
Intra EC Exports	46	46	48	50	0	50
Other Exports	28	28	23	19	0	15
TOTAL Exports	74	74	71	69	0	65
Domestic Consumption	175	175	174	173	0	172
TOTAL Use	249	249	245	242	0	237
Ending Stocks	8	8	11	8	0	12
TOTAL DISTRIBUTION	257	257	256	250	0	249
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

**Prices Table**

Prices Table					
Country:					
Commodity:					
Year:	1998				
Prices in (currency)	Pounds	per (uom)	Metric Ton		
Year	1997	1998	% Change		
Jan	2445	2400	-1.8%		
Feb	2310	2230	-3.5%		
Mar	2305	2200	-4.6%		
Apr	2215	2140	-3.4%		
May	2235	2140	-4.3%		
Jun	2275	2225	-2.2%		
Jul	2310	2325	0.6%		
Aug	2288	2325	1.6%		
Sep	2288	2225	-2.8%		
Oct	2450	2225	-9.2%		
Nov	2465		-100.0%		
Dec	2410		-100.0%		

**Trade Matrices**

Export Trade Matrix			
Country:		Units:	MT
Commodity:			
Time period:	Jan-June		
Exports for	1997		1998
U.S.		U.S.	
Others		Others	
France	8605		8374
Belgium-Lux	4950		7256
Netherlands	3543		4416
Germany	2332		1497
Other EU	1492		1616
Russia	8760		4143
		Uzbekistan	4846
Estonia	1639		
Poland	1467		
South Africa	1868		
Total for Others	34656		32148
Others not listed	5741		3996
Grand Total	40397		36144

Import Trade Matrix			
Country:		Units:	MT
Commodity:			
Time period:	Jan-June		
Imports for	1997		1998
U.S.		U.S.	
Others		Others	
Irish Republic	16354		13019
Denmark	9944		4019
Belgium-Lux	2648		3319
France	1806		1575
Netherlands	618		975
Other EU	471		325
New Zealand	24606		28679
Total for Others	56447		51911
Others not listed	51		118
Grand Total	56498		52029

**Milk, Nonfat Dry PS&D**

PSD Table						
Country:	United Kingdom					
Commodity:	Dairy, Milk, Nonfat Dry					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1997		01/1998		01/1999
Beginning Stocks	38	38	39	39	40	42
Production	108	108	107	107	0	106
Intra EC Imports	13	13	13	13	0	13
Other Imports	0	0	0	0	0	0
TOTAL Imports	13	13	13	13	0	13
TOTAL SUPPLY	159	159	159	159	40	161
Intra EC Exports	12	12	12	12	0	12
Other Exports	33	33	32	26	0	33
TOTAL Exports	45	45	44	38	0	45
Human Dom. Consumption	65	65	65	67	0	68
Other Use, Losses	10	10	10	12	0	12
Total Dom. Consumption	75	75	75	79	0	80
TOTAL Use	120	120	119	117	0	125
Ending Stocks	39	39	40	42	0	36
TOTAL DISTRIBUTION	159	159	159	159	0	161
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

**Trade Matrices**

Export Trade Matrix			
Country:		Units:	MT
Commodity:			
Time period:	Jan-June		
Exports for	1997		1998
U.S.		U.S.	
Others		Others	
France	592	France	389
Netherlands	5776	Netherlands	3569
Irish Republic	82	Irish Republic	1372
Spain	27	Spain	
		Germany	333
Other EU	164	Other EU	350
Mexico	15395	Mexico	3414
South Africa	1026		
		Chile	1162
Total for Others	23062		10589
Others not listed	2818		5357
Grand Total	25880		15946

Import Trade Matrix			
Country:		Units:	MT
Commodity:			
Time period:	Jan-June		
Imports for	1997		1998
U.S.		U.S.	
Others		Others	
France	1461	France	1766
Netherlands	556	Netherlands	1095
Irish Republic	3197	Irish Republic	2892
Denmark	262	Denmark	
Other EU	425	Other EU	415
Total for Others	5901		6168
Others not listed	20		0
Grand Total	5921		6168

**Milk, Dry PS&D**

PSD Table						
Country:	United Kingdom					
Commodity:	Dairy, Dry Whole Milk Powder					
		1997		1998		1999
	Old	New	Old	New	Old	New
Calendar Year Begin		00/0000		00/0000		00/0000
Beginning Stocks	3	3	3	3	3	3
Production	97	97	95	95	0	0
Intra EC Imports	10	10	10	9	0	10
Other Imports	0	0	0	0	0	0
TOTAL Imports	10	10	10	9	0	10
TOTAL SUPPLY	110	110	108	107	3	13
Intra EC Exports	19	19	20	21	0	0
Other Exports	53	53	55	75	0	0
TOTAL Exports	72	72	75	96	0	0
Human Dom. Consumption	35	35	30	30	0	0
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	35	35	30	30	0	0
TOTAL Use	107	107	105	126	0	0
Ending Stocks	3	3	3	3	0	0
TOTAL DISTRIBUTION	110	110	108	129	0	0
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0



**Trade Matrices**

Export Trade Matrix			
Country:		Units:	MT
Commodity:			
Time period:	Jan-June		
Exports for	1997		1998
U.S.		U.S.	
Others		Others	
Netherlands	6093	Netherlands	6231
Germany	581	Germany	1056
Denmark	2198	Denmark	667
Other EU	2713	Other EU	725
France		France	3560
Kuwait	3012	Venezuela	5665
Phillipines	2401	Brazil	5029
Hong Kong	1671	Ivory Coast	3590
		Senegal	2204
		Guatemala	1698
Total for Others	18669		30425
Others not listed	8560		26043
Grand Total	27229		56468

Import Trade Matrix			
Country:		Units:	MT
Commodity:			
Time period:	Jan-June		
Imports for	1997		1998
U.S.		U.S.	
Others		Others	
France	1824	France	1207
Netherlands	575	Netherlands	576
Germany	489	Germany	273
Irish Republic	2022	Irish Republic	1861
Other EU	53	Other EU	152
Total for Others	4963		4069
Others not listed	10		48
Grand Total	4973		4117