

# 1983/84 DAIRY SEASON REVIEW<sup>1</sup>

The 1983/84 season (May year) proved to be a mixed one for the New Zealand dairy industry. On the production side conditions were extremely favourable and a record level of output was recorded, but the international market for dairy products which was already depressed at the beginning of the season, deteriorated further. The announcement of a longer term access agreement to the United Kingdom market did nevertheless provide one bright spot in an otherwise difficult marketing year.

This article briefly reviews the 1983/84 dairy season with particular emphasis on the international dairy market and its implications for New Zealand dairy farmer returns.

## NEW ZEALAND PRODUCTION

A record total of 323.4 million kilograms (m.kgs) of milkfat was processed by New Zealand dairy factories in the 1983/84 season (refer table 1). This represents an increase of 11.4 per cent on the 290.3 m.kgs processed in 1982/83 and was over 11 per cent greater than the previous production record which was set in the 1979/80 season (290.9 m.kgs).

Favourable weather was the principal factor underlying this performance. The season started well following a relatively mild winter and spring growing conditions were good. Although production in October and November 1983 had slipped behind the previous year's levels (as cloudy conditions and low temperatures restricted pasture growth), from Christmas onwards mild temperatures and plentiful rainfall were responsible for a strong recovery of production in all regions. Climatic conditions in the autumn were particularly favourable and production for the three month period March to May 1984 was up by 60 per cent over the same period in 1983.

A second reason for the increased production was an estimated 2.5 per cent increase in the numbers of cows in milk. This has been the third successive season in which the number of cows in milk has increased and their numbers are now nearly 8 per cent higher than they were in 1981 (when the number of cows in milk fell to the lowest level during the last 10 years). This performance contrasts with the gradual decline in cow numbers that took place during the 1970s and reflects the good returns to dairying in the early 1980s. The downward trend in the number of dairy herds has also bottomed out in the last two years. In 1950 there were 53,497 dairy factory suppliers but this figure was progressively reduced to 29,625 in 1965 and 15,424 in 1980. The number of suppliers reached a lowpoint of 14,843 in 1982 and has since risen slightly to 14,900. Although the number of dairy herds in 1984 was still significantly down on the number in 1950, the average herd size has increased from 50 to 140 over the same period.

A third reason is the long-term trend towards higher production per cow reflecting genetic improvement in

**TABLE 1**  
**COWS IN MILK, PRODUCTION AND HERD SIZE**

Year Ended May	Dairy Cows in Milk <sup>1</sup> (000)	Milkfat Processed (000 tonnes)	Milkfat per Cow 'at factory' (kg)	Herd Size
1975	2,080	243.9	128	112
1976	2,092	267.6	137	115
1977	2,074	275.1	143	116
1978	2,053	251.0	131	120
1979	2,040	274.2	142	123
1980	2,046	290.9	151	126
1981	2,027	282.0	147	129
1982	2,061	282.4	144	133
1983	2,127	290.3	143	137
1984	2,180	323.4	155	140

Source: NZ Dairy Board

P = Provisional

<sup>1</sup> As at 31 January each year

**TABLE 2**  
**MANUFACTURE OF DAIRY PRODUCTS**  
(000 tonnes)

Product	Season			
	1980/81	1981/82	1982/83	1983/84 <sup>E</sup>
Creamery butter	204.4	221.6	238.4	230
Whey butter	2.0	2.9	2.8	2
Anhydrous milkfat	41.2	14.6	14.6	25
Frozen cream	5.0	5.3	5.3	7
Cheese	84.0	111.0	114.3	108
Condensed and evaporated milk	4.8	4.2	4.0	4
Wholemilk powder	88.8	103.2	97.9	115
Infant food	8.0	10.5	16.6	12
Skimmilk powder	181.0	198.7	164.6	205
Buttermilk powder	25.0	23.7	24.0	23
Casein	59.4	47.2	65.2	64
Lactose	11.0	11.8	10.3	11
Whey powders	10.0	13.6	9.6	12

Source: N.Z. Dairy Board

E = Estimated

the herd. From season to season this tends to be masked by climatic influences but since 1950 the average improvement in output per cow has been about 1 kg a year.

The quantity of dairy products manufactured over the past four seasons is shown in table 2. In 1983/84 butter production was estimated to have been slightly down on the previous year's figure, however, it was above the initial planning figure of 220,000 tonnes because of the surge in milkfat production late in the season. As a result, stocks of butter in June 1984 stood at 50,000 tonnes which was above the 41,000 tonnes prevailing at the beginning of the season. In response to the season's high milkfat production, manufactures of both wholemilk and skimmilk powder are estimated to have increased in 1983/84, in contrast to the downturn that occurred in the previous year. Production of cheese was curtailed from the start of the 1983/84 season as the United States held a large stockpile which continued to

<sup>1</sup> This article draws on various international organisation reports on the dairy industry as well as annual reports of the New Zealand Dairy Board.

depress world prices. In addition, the New Zealand Dairy Board's stocks of cheese were higher at the beginning of the season than were desired by the Board. This production constraint was relaxed later in the season as export marketing activities were intensified. The increase in the production of anhydrous milkfat represents a return to more normal production levels after supplies had been obtained from surplus butter purchased from the United States in the previous two seasons.

## THE INTERNATIONAL DAIRY SITUATION

Milk production in the major producing countries, as outlined in table 3, increased quite strongly during 1983. The United States Department of Agriculture estimates that total milk production in the major producing countries increased by 3.4 per cent to 406.9 million tonnes in 1983, compared to an increase of 2 per cent in 1982. Production was higher in most of the major

**TABLE 3**  
**MILK PRODUCTION IN MAJOR PRODUCER COUNTRIES**  
(000 tonnes)

Region & Country	Calendar Year					% Change 1984/83
	1980	1981	1982	1983	1984	
Belgium/Luxembourg	3,898	4,059	4,066	4,080	4,100	+0.5
Denmark	5,117	5,037	5,217	5,410	5,435	+0.5
France	26,859	26,862	27,358	28,100	28,500	+1.4
W. Germany	24,778	24,858	25,465	26,600	27,000	+1.5
Ireland	4,859	4,803	5,127	5,490	5,650	+2.9
Italy	10,749	10,637	10,800	11,100	11,000	-0.9
Netherlands	11,785	12,147	12,708	13,080	13,450	+1.3
United Kingdom	15,958	15,857	16,745	17,600	18,000	+2.3
Greece	713	714	684	715	715	0.0
<b>TOTAL EEC</b>	<b>104,716</b>	<b>104,974</b>	<b>108,215</b>	<b>112,175</b>	<b>113,850</b>	<b>+1.5</b>
Austria	3,396	3,530	3,554	3,590	3,620	+0.8
Finland	3,277	3,171	3,166	3,261	3,226	-1.1
Norway	1,946	1,965	2,023	2,017	1,980	-1.9
Portugal	644	815	810	791	800	+1.1
Spain	5,871	5,881	5,947	6,000	6,100	+1.7
Sweden	3,465	3,496	3,654	3,766	3,778	+0.3
Switzerland	3,655	3,658	3,663	3,666	3,671	+0.1
<b>TOTAL WESTERN EUROPE</b>	<b>126,970</b>	<b>127,490</b>	<b>131,032</b>	<b>135,266</b>	<b>137,025</b>	<b>+1.3</b>
Canada	7,855	8,005	8,258	8,100	8,200	+1.2
Mexico	6,742	6,856	6,924	6,500	6,700	+3.1
U.S.A.	58,298	60,334	61,596	62,981	58,466	-7.7
<b>TOTAL NORTH AMERICA</b>	<b>72,895</b>	<b>75,195</b>	<b>76,778</b>	<b>77,581</b>	<b>73,366</b>	<b>-5.7</b>
Argentina	5,301	5,274	5,781	5,700	5,750	+0.9
Brazil	10,265	10,500	10,100	10,700	11,000	+2.8
Chile	1,080	1,200	1,055	930	980	+5.4
Peru	620	630	635	550	600	+9.1
Venezuela	1,358	1,435	1,473	1,516	1,570	+3.6
<b>TOTAL SOUTH AMERICA</b>	<b>18,624</b>	<b>19,039</b>	<b>19,044</b>	<b>19,396</b>	<b>19,900</b>	<b>+2.6</b>
Czechoslovakia	5,909	5,929	5,930	6,135	6,145	+0.2
German Democratic Rep	8,321	8,202	7,817	8,000	8,100	+1.3
Hungary	2,545	2,653	2,720	2,750	2,775	+0.9
Poland	16,448	15,297	15,248	15,920	15,350	-3.7
Yugoslavia	4,342	4,349	4,607	4,697	4,747	+1.6
Romania	4,148	3,601	3,100	3,300	3,300	0.0
<b>TOTAL EASTERN EUROPE</b>	<b>41,713</b>	<b>40,031</b>	<b>39,422</b>	<b>40,802</b>	<b>40,417</b>	<b>-1.0</b>
Soviet Union	90,900	88,874	91,044	96,800	99,000	+2.3
South Africa	2,416	2,322	2,417	2,530	2,510	-0.8
India	13,500	14,000	14,700	15,200	15,680	+3.2
Japan	6,505	6,620	6,750	6,900	6,950	+0.7
Australia <sup>1</sup>	5,562	5,324	5,410	5,677	5,857	+3.2
New Zealand <sup>2</sup>	6,833	6,677	6,775	6,757	6,830	+1.1
<b>TOTAL OTHER</b>	<b>125,716</b>	<b>123,815</b>	<b>127,096</b>	<b>133,864</b>	<b>136,827</b>	<b>+2.2</b>
<b>TOTAL</b>	<b>385,918</b>	<b>385,774</b>	<b>393,372</b>	<b>406,909</b>	<b>407,535</b>	<b>+0.2</b>

Source: USDA  
P = Provisional  
F = Forecast  
1 Year Ended June  
2 Year Ending May

producing countries, with growth in the United States and the EEC region increasing by 2.2 per cent and 3.7 per cent respectively. Other individual countries exhibiting high growth rates in milk production were Germany, the Soviet Union and the United Kingdom.

In the Soviet Union conditions were particularly favourable for dairy production during 1983. The mild winter meant that there was good pasture growth and consequently a good harvest of stock food. Milk yield per cow increased by more than 6 per cent in 1983. The United States Department of Agriculture estimate that Soviet Union milk output could expand 2 — 3 per cent in 1984. The resumption of growth in the Soviet Union's production following relatively poor seasons in 1980 and 1981 has had a substantial impact on the international market as the Soviet Union has been the biggest net importer of dairy products. Soviet imports of butter peaked at 249,000 tonnes in 1980 but dropped to 150,000 tonnes in 1982. There was a further sharp reduction in 1983 as their production of butter increased by 15 per cent.

The increased production levels in the EEC and the United States combined with weak domestic demand in those countries and more limited export possibilities led to a sharp rise in stock levels of both skimmilk powder and butter. EEC intervention butter stocks rose from 293,900 tonnes to 726,000 tonnes between July 1982 and July 1983, and continued to increase to 1,166,500 tonnes by July 1984. Stocks of skimmilk powder increased from 483,100 tonnes in July 1982 to 980,300 tonnes in July 1983 and increased slightly to 984,500 tonnes during the year to July 1984. In the United States intervention stocks of skimmilk powder increased by 17 per cent between July 1982 and July 1983, from levels which were already high by historical standards. Cheese stocks grew by over 20 per cent despite a domestic donation programme in the United States which accounted for 30,000 tonnes. During the ten months to May 1984 butter and skimmilk powder stocks were held at levels close to those at the beginning of the year as some stocks were disposed of internationally through food aid programmes. Table 4 summarises the international stock situation for SMP and butter as at July of each year since 1975.

The excess supply situation amongst the major producers inevitably placed considerable pressure on prices in the international market for dairy products.

The international trade in dairy products accounts for only about 3 per cent of world milk product and only a small part of the world dairy market is open to free international competition (principally those countries which do not have significant domestic industries). With some products, most notably butter, annual sales on the free market are considerably less than the level of excess stocks in exporting countries. In these circumstances even relatively small variations in production by the major producers can lead to considerable variations in the amount of production which can potentially enter the international market.

The supply-demand imbalance began to be reflected in prices during the 1982/83 season. After some weakening through the year there was a sharp fall off in prices for most products in May and June 1983. By June 1983, butter prices measured in United States dollars (the currency used by the international dairy trade) were down 20 per cent from a year earlier, and cheese and milkpowder prices by around 25 per cent. As a consequence of the March 1983 devaluation of the New Zealand dollar and the strengthening of the United States dollar, the price declines as measured in New Zealand dollars were about 10 percentage points less than the above.

During the 1983/84 season the over-supply situation continued to place further pressure on prices though a complete collapse was avoided as the major suppliers co-operated to avoid a competitive bidding down of prices. Even so, butter and cheese prices fell by a further 10 per cent and milkpowder prices were down 4 to 5 per cent.

One positive aspect of the over-supply situation has been a growing realisation in both the United States and the EEC that the open-ended price support measures which had underpinned the increased production was resulting in a structural surplus and that the commitment to purchase and dispose of surplus stocks was imposing substantial and growing budgetary burdens.

From December 1983, legislation designed to restrain United States dairy production became effective. The support price was reduced by 50 cents to US\$12.60 per 100lbs of milk, while a 50 cent levy was imposed to finance a milk diversion programme. Under this programme participants are paid to reduce their milk production by a specified amount, between 5 to 30 per

TABLE 4  
STOCKS OF DAIRY PRODUCTS IN MAIN EXPORTING COUNTRIES  
(000 tonnes)

As at July	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 <sup>P</sup>
<b>SMP</b>										
EEC	963.2	1,360.0	1,185.4	994.7	597.2	398.8	427.9	483.1	980.3	984.5
USA	200.2	218.6	278.1	318.4	244.2	248.8	332.5	522.4	611.1	620.0*
Canada	94.0	166.3	94.9	32.6	23.6	35.3	42.6	60.8	28.2	20.1*
Australia	57.2	37.5	7.0	5.6	9.7	9.3	15.5	10.4	16.6	54.0*
New Zealand	182.5	214.0	129.0	64.0	90.0	76.0	80.2	130.0	99.0	65.0*
<b>Butter</b>										
EEC	324.9	466.1	512.7	582.4	636.3	475.2	287.9	293.9	726.0	1116.5
USA	45.2	36.7	89.4	127.9	114.1	134.2	230.2	245.1	220.0	233.6*
Canada	26.3	37.6	22.3	32.4	30.3	21.1	20.5	35.5	36.5	26.3*
Australia	28.9	10.6	17.5	21.7	9.2	6.2	11.3	15.3	24.2	57.0*
New Zealand	38.1	30.8	23.9	23.3	32.1	29.4	20.0	29.0	30.0	55.0*

Source: Agra Europe F.A.O. OECD  
\* May

(P) Provisional

cent of their production in either 1982 or of average production in 1981 and 1982. Although response to the programme was less than expected with fewer than 20 per cent of producers participating, reduced real milk prices and higher feed costs encouraged non-participants to cull more cows and production was down by 2 per cent during January-May 1984 as compared with the same period a year earlier. During this period, official purchases of excess production have fallen by over one-third on 1983.

In March of 1984, agreement was reached in the EEC on a system of national quotas which is to restrict global production to 99.6 million tonnes in 1984/85 (about 5.5 million tonnes below current deliveries) and to 98.7 million tonnes for the period 1985/86 and the three succeeding years. Output above the production quotas is to be subject to a levy which will make the additional production unprofitable. In addition, the milk target price is to be frozen and an additional 1 per cent levy will be imposed. The aim of these measures is to reduce output by nearly 10 per cent in both 1984/85 and 1985/86 from the levels that would have been attained in those years. Nevertheless, even if this is achieved EEC production in both years is likely to exceed consumption by 10 — 15 per cent and it is clear that these measures offer little prospect of a significant early reduction in the level of excess dairy stocks.

Although it appeared to be readily apparent that the international market offered little prospect for additional sales and that an attempt to increase market share would force down prices, in July 1984 the EEC Commission announced a plan to increase its export subsidies so as to encourage the disposal of 100,000 — 150,000 tonnes of butter over the next year. Prices will be reduced below current market levels for sales to the USSR, Iran and a number of Middle East countries. If this plan is effective in obtaining additional orders at the expense of New Zealand exports, the Dairy Board may have to match the EEC's prices to maintain its sales and returns could be reduced by US\$250 a tonne (compared to current market levels of around US\$1,660 a tonne).

## UNITED KINGDOM ACCESS

Since the United Kingdom joined the EEC in 1983, access levels for New Zealand butter and cheese have been progressively cut back. The quota for cheese exports, which totalled 68,580 tonnes in 1973, was phased out after 1977 but a measure of access has been restored since 1980 when an EEC cheese quota of 9,500 tonnes was set under the General Agreement on Tariffs and Trade. The quota on butter exports has been steadily reduced to 87,000 tonnes in 1983 compared to an actual level of exports of 165,800 tonnes in 1973.

In recent years quota levels have been set after protracted negotiations. For periods in both 1983 and 1984 entry levels had to be set on a month by month basis because of a failure to reach agreement until well into the year to which the access level applied. Part of the difficulty in reaching an agreement lies in the EEC decision-making process which allows any one country to veto a decision.

This year, New Zealand sought to obtain a five year access agreement with guaranteed tonnages. New Zealand and nine of the ten EEC members were prepared to accept a plan for five years access with tonnages falling from 83,000 in 1984 to 75,000 tonnes in 1988, but the Irish wanted the amount set annually. The

Irish possibly saw the annual negotiations over the level of New Zealand's butter access as a negotiating lever that could be used to secure Ireland more favourable treatment when the dispensations it has received under the EEC dairy production restraint programme come up for review. New Zealand also had a negotiating lever, as it had withheld signing a 'sensitive market' agreement under which New Zealand would voluntarily agree to limit its shipments of sheepmeats to the Irish and French markets, pending a satisfactory resolution to the butter issue. Eventually a compromise was reached in June 1984 which guaranteed access for five years but set guaranteed tonnages for the first three years only. The quota which is 83,000 tonnes for 1984 falls to 81,000 tonnes in 1985 and 79,000 tonnes in 1986. Quotas for 1987 and 1988 are to be set by August of the preceding year.

## EXPORT RECEIPTS

Dairy product export receipts, on an OET basis, are shown by country for the last four June years in table 5. It should be noted that this data does not relate directly to shipments made during the period but rather to foreign currency proceeds received by New Zealand's banking system during the period stated. Changes in timing between shipment, sales and the receipts from those sales can sometimes make a considerable difference to the profile of receipts over a period of years. Nevertheless, the data does provide a reasonable indication of the relative importance of various markets and the changes which have occurred in recent years.

The 7.6 per cent fall in total receipts in 1983/84 compares with increases of 8.4 per cent in 1982/83 and 22.8 per cent in 1981/82. The decline largely reflects the downturn in dairy prices but also arises from a small decline in the volume of shipments compared to 1982/83.

The United Kingdom remained New Zealand's largest market for dairy products, increasing its share of total OET receipts in 1983/84 from 20 to 23 per cent. This increase contrasts with the long run downward trend in

TABLE 5  
OVERSEAS EXCHANGE TRANSACTIONS  
EXPORT RECEIPTS: DAIRY PRODUCTS  
(\$ million)

	Years ended June			
	1981	1982	1983	1984
United Kingdom	341.5	350.9	319.2	338.2
Japan	120.8	161.2	214.6	185.7
U.S.A.	137.3	186.2	195.9	201.5
U.S.S.R.	48.0	162.4	118.4	46.2
Indonesia	64.7	60.8	91.8	41.4
Malaysia	54.1	51.2	67.7	80.6
Venezuela	16.0	11.3	60.5	75.9
Singapore	25.2	25.6	59.5	41.4
Peru	38.4	44.5	54.4	38.9
Philippines	47.8	39.2	48.0	30.6
Australia	26.3	29.5	30.7	36.7
Taiwan	16.9	22.9	30.7	33.5
West Germany	21.1	21.0	15.2	23.8
Iraq	16.1	11.4	12.4	24.8
TOTAL INCLUDING OTHER	1,173.8	1,441.3	1,563.7	1,444.4

Source: Reserve Bank of New Zealand.

the importance of the United Kingdom market as access has been progressively restricted and diversification to other markets has taken place. In 1970, two thirds of New Zealand's dairy receipts were from the United Kingdom.

During 1983/84 the volume of product shipped to the United Kingdom fell slightly, but average prices received were higher than in the previous season which was in contrast to price movements in other markets. The price of New Zealand butter exports to the United Kingdom market is determined by EEC domestic butter prices and not by the world price which was considerably weaker in 1983/84 than in the previous year.

A large downturn in dairy receipts from the USSR in 1983/84 is attributed to the marked upswing in butter production in that country. Significant falls in receipts were also recorded for a number of other countries, notably Peru, Indonesia and the Philippines which have experienced debt rescheduling and payments crises over the year under review. While these developments have led to a downturn in export shipments to those markets, lower OET receipts from these countries in 1983/84 also reflect the fact that the Dairy Board has been prepared to give these countries extended payment terms so as to ensure continued sales in the face of acute foreign exchange shortages.

## PRODUCER RETURNS

Although the Government's supplementary minimum price (SMP) scheme has applied to the dairy industry, it has had no effect on producer incomes in recent years as prices set by the industry have exceeded SMP levels and there has been no Government supplementation payments. Dairy farmer incomes have, however, been considerably affected by industry price stabilisation arrangements.

The Dairy Industry Stabilisation Scheme was introduced in the 1975/76 season with the aim of stabilising prices to farmers of the two components of milk; milkfat and solids non-fat (SNF) (protein, sugar, etc.). At the beginning of each season the Dairy Products Prices Authority set basic prices for both milkfat and SNF from which is derived a basic advance payout to farmers for milk supplied to dairy factories in terms of cents per kg of milkfat. Changes in these basic prices are normally restricted to a range 10 per cent up, or 5 per cent down on that of the previous season. The Dairy Board uses these basic prices to calculate prices at which it will buy products from the dairy companies. The Board operates two separate trading accounts, the Milkfat Trading Account and the SNF Trading Account, which reflect the profit or loss at the end of each season on milkfat and SNF. Up to 50 per cent of the profit in each account can be distributed to farmers as an end of season surplus payment and profits may be distributed from one account even if the other is in a loss position. The surplus payment mechanism thus allows prices to farmers to rise by more than the 10 per cent limit on the combined basic prices.

The favourable seasons in 1981/82 and 1982/83 allowed the Dairy Board to record surpluses of \$276 million and \$248 million in those years. As only half of those surpluses were distributed, the Dairy Industry Reserve Account balance increased to \$368 million as at May 1983.

The downturn in the international dairy market was reflected in the Board's revenues in 1983/84 when an estimated deficit of \$14 million was recorded in the milkfat account and a surplus of \$29 million in the SNF account to give an overall surplus of \$15 million. The result was better than expected because of the beneficial effect of the wage and price freeze in restraining costs and because of a reduction in unit manufacturing costs due to the high level of throughput.

For the 1983/84 season the Dairy Products Prices Authority set a basic price for milkfat in wholemilk of 340 c/kg. The season's payout has been brought up to a total of 350 c/kg with the distribution of the trading profit and a small payout from reserves. This compares with total payouts of 360.75 c/kg and 333.48 c/kg for the 1982/83 and 1981/82 seasons. For 1984/85 the basic price has been set at 355 c/kg.

Average factory supply dairy farm incomes over the last five financial years are shown in table 6. Net income per farm is estimated to have increased by over 30 per cent in 1983/84. In part this increase was due to the season's record production which boosted gross incomes without a commensurate increase in costs and, in part to the end of season payout of 42.75 c/kg which relates to previous seasons' production. In addition, a slowdown in the rate of cost increases to an estimated 2 per cent for the March 1984 year meant that little of the gross income gains were eroded away.

**TABLE 6**  
**AVERAGE INCOME PER FACTORY SUPPLY DAIRY FARM**  
**(Dollars)**

	1979/80	1980/81	1981/82	1982/83 <sup>P</sup>	1983/84 <sup>E</sup>
Gross income	44,947	53,726	66,752	75,976	86,300
Expenditure	31,205	38,538	48,562	55,167	59,000
Net farm income	13,742	15,188	18,190	21,809	27,300

Source: NZ Dairy Board  
P = Provisional  
E = Estimate

## CONCLUSION AND OUTLOOK

While New Zealand dairy farmers have just experienced a very favourable season from a production and income point of view, the international trading environment remained difficult and there appears to be no reasonable prospect of a significant improvement during 1984/85. Although both the EEC and the United States have both instituted measures to restrain production, their excess stocks continue to be the dominant influence on the world dairy market. The Americans have refrained from dumping their excess stocks directly onto commercial markets but their donation of dairy products (principally skimmed milk powder) under food aid programmes has been of concern to the New Zealand dairy industry. While in many cases sales at highly concessional prices and donations under these programmes would have led to additional consumption and would not have displaced normal commercial sales, there has been concern that in other instances they may have undermined New Zealand's sales in some long established markets.

The recent decision by the EEC to increase its market share of butter in Middle East, Iran and the USSR is of greater concern to New Zealand. Increased sales by the EEC in this region can only be made, to a large extent, at the expense of New Zealand sales. If New Zealand loses sales, then it may have to reduce its prices to defend its market share. This will reduce returns in those markets and must inevitably have a flow on effect to returns from other markets.

Providing the EEC sees increased disposals on the international market as at least a part solution to its over-production problems, there would seem to be no early prospect of a return of prices to their higher levels of two seasons ago. Although overall EEC butter production fell by 5 per cent in the June quarter of 1984 compared with the previous June quarter, stocks are still expected to grow and could reach 1.3 million tonnes by the end of September 1984.

New Zealand Dairy Farmers' gross incomes have so far been shielded from the underlying decline in market returns by the various price smoothing schemes. However, net incomes are predicted to fall in the 1984/85 season reflecting an expected return to a more normal production level and higher input costs.

The 20 per cent devaluation of the New Zealand dollar in July 1984 will make little difference to the income position for dairy farmers in 1984/85 as the basic payout has already been set. The devaluation will, however, probably make a considerable difference in incomes during the 1985/86 financial year as the healthier state of the Dairy Industry Reserve Account (which would have been run down by more than \$200 million without the devaluation) and the higher New Zealand dollar returns on international markets should allow a higher basic payment to be set than the level that could have been justified without the devaluation.