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GLOBAL DAIRY MARKET AND UPCOMING CHALLRNGRS FOR ARMENIA

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All the countries of the world have dairy production. In comparison with other food and non-food products it is less subject to fluctuations of economic crises. It has almost balanced development over time. In such a situation arises the necessity to regulate the dairy production sector. It is a complicated process, because dairy production is continuous process and in many cases, the market with its mechanism elements is not able to regulate dairy production. Overall, dairy production will remain on focus in prospect. The capital investments in that sphere are going to enhance. The article presents an analysis of global and particularly EU dairy market conjuncture reveals the dynamics of dairy production, the proportional weights of main milk producing countries in the global market and market development prospects over the next 10 years. Particular attention is paid to the questions of dairy production in the countries of Custom Union. It is pointed out The role of Armenia in the context of development of world dairy market is pointed out.

Dairy production is carried out in all countries of the world, each according to their abilities, where the primary factor of production is the amount of agricultural land (put under the production of fodder and grazing land), then the indicators of milk productivity of cattle, as well as the constant demand of mentioned products.

Dairy production, in comparison with other food and non-food products is less subject to fluctuations of economic crises, so it has almost proportionate development over time.

Currently, 28% of the global dairy production is carried out by the Asian countries, by the European Union (EU) countries - 24%. In the other European countries, without EU countries the dairy production is only 9% of the same indicator in the world. As for the North and Central America it is 18%, in South America- 11%, in Africa and Oceania, each 5% in the global production.

It is expected, that in the near future the leading countries in the dairy production are going to be India, China and Brazil. Brazil is already ahead of Russia. It is predicted Dairy production enhancement is predicted in EU, which is connected with the elimination of dairy production quotas in 2015.

In 2012 Russia was the seventh by the production of all types of dairy products. Here in contrast to developed countries dairy production is steadily declining. According to the analysts of the Russia`s agrarian market conjuncture institute, dairy production was mixed for Russia in 2014. First, associated with the food embargo, opened new prospects for milk producers and processors in several countries. Earlier, until its application import share of the Russian dairy market for cheese was around 50%, for butter 37% and for milk 32%. Actually, food embargo created favorable conditions for dairy market to apply substitutes. On the other hand, the milk production sector is capital and technology intensive sector, with great economic lag.

Currently the dairy production sector is becoming high risky business as there is decline in ruble exchange rate, banking financial investments cuts, fluctuations in the market conjuncture and etc., that ultimately prevent dairy production development.

5 major exporting countries control 77% of global dairy production: New Zeland-28%, EU-26%, the USA - 12%, Australia - 7%, Argentina - 4%. Major exporter of dairy products is Republic of Belarus, whose share in the world market is almost 4% [1].

In 2013, demand for the milk powder grew, as a result of some European milk processor companies, which certain percentage of milk used to obtain milk powder. One of the main reasons was that Russia - the largest importer of European cheese decreased the volume of cheese production, because of recently imposed sanctions.

To illustrate its negative effects, it is enough to mention that Japan, the second largest importer of cheese, imports cheese two times less than Russia. That means that sanctions have great negative impact on producers, on EU countries.

In EU member countries the production of dairy products declined due to the dairy consumption reduction in the global market. In 2008 the European Commission decided to reduce to subsidize the producers of dairy products, which negatively affected the prices of dairy products and there was created a situation that the production of dairy products declined, there was developed deficit of dairy products leading to an increase in prices. It should be noted that the average prices of milk in EU are 15-20% higher than in the Republic of Armenia.

In EU member countries milk processors seek to buy row milk with low prices from the milk producers. As a result, the competitiveness of the dairy products will enhance.

The decrease in prices in the global market is due to the reduction in demand for the dairy products, as for the EU countries also with the increase in production volume.

Six of the 27 EU countries produce 69% of the total dairy products, Germany produces 20%, France-17%, Great Britain- 9%, Netherlands- 8%, Poland- 8% and Italy- 7%. In addition, 15 of EU member countries are concentrated in dairy production. To understand the dairy production in EU member countries, let us see the amount of cows, milk productivity of a cow and the milk production in each country (Table).

Table. *Amount of Cows and the Dairy Production in EU Countries [1]*

N	EU countries	Amount of Cows (thous. heads)	Milk productivity(thous. tons)	Dairy production (thous. tons)
1	United Kingdom	1800	7827	14088
2	Sweden	348	8200	2850
3	Finland	282	8173	2301
4	Slovakia	154	6024	928
5	Slovenia	109	5514	602
6	Romania	1154	3531	4075
7	Portugal	242	7923	1919
8	Poland	2446	5075	12414
9	Austria	527	6271	3307
10	Netherlands	1504	7879	11851
11	Malta	6	-	-
12	Hungary	248	6850	1712
13	Luxembourg	45	6567	292
14	Lithuania	350	5100	1782
15	Latvia	164	5129	842
16	Ciprus	24	6474	156
17	Italy	1519	6438	11299
18	France	3664	6865	25116
19	Spain	798	8131	6488
20	Greece	130	5823	757
21	Irleand	1036	5365	5556
22	Estonia	96	7198	692
23	Germany	4188	7232	30301
24	Denmark	579	8127	4880
25	Czech Republic	374	7313	2736
26	Bulgaria	305	3670	1126
27	Belgium	511	6172	3151
EU – 27		22602	6693	151221

(The data are not available on Malta. The production volume is small)

If the data in Table, EU dairy production indicators compare with the figures in Armenia, we can reveal the following: Armenia with the amount of cows is ahead from 10 milk producing EU countries only 3 times, but the productivity of milk in RA is lower by 1349 kg even from Romania, which has the lowest indicator.

Discussing issues of livestock, agrarian economics believes that it has an inertial management approach, because some questions do not depend on the will and efforts of the manufacturers, but is dictated by the lows of nature. For example, milk production is not proportionate during the year: from May to August the volume of the milk produced on average is twice the volume from November to February. It makes difficulties for the livestock owners: milk processing, sales and other issues related to the care and feeding of livestock. Furthermore, surplus of milk causes additional problems in the processing and sale (raw milk cannot be stored). Finally, throughout the world, as well as in Europe, the milk productivity is rising, which also creates an imbalance between the production and consumption of milk.

Tetra Pak company expects that during next 10 years the global dairy consumption, including milk, cheese and butter will increase by 36%. The increase will take place as a result of raising the living standards, as well as urbanization process in Africa, Asia and Latin America and the demand of dairy production will exceed supply, creating a deficit (deficit) for the next 10 years, which in turn will lead to increase of prices.

During the next 10 years, the conjuncture /market condition/ of the dairy market in developed countries will change as well, as a result of changes in the welfare of the population. Thus, in the dairy market of Europe and North America new dietary requirements are on the rise, which would cause a dairy production catalog changes in demand. It should be noted that the level of milk sales in the USA over the last 30 years is at the lowest level, while milk consumption in Western Europe for 2012-2014, decreased by 0.8%. Therefore, the developed countries are looking for an increase of demand for dairy products in developing countries, and face with the level of local consumption of the product [2].

In general, dairy production will remain focused in prospect and it is expected to have an increase in volume of capital investments in the sector. According to the same source, in the milk processing industry the investments in 2015 will come up to 579 million Euro, in 2016 - 608 million Euro, in 2017 - 638 million Euro and in 2020 - 740 million Euro.

In such a situation it is necessary to regulate the dairy production sector. It is a complicated process because of the constant milk production and mostly it is impossible to regulate the market with the elements of the mechanism. The European Union in early 1980s, tried to regulate the problem of pricing mechanisms, through subsidies and taxes. They did not give the desired result and they decided instead of market mechanisms to apply administrative mechanisms, which are to determine milk production quotas. Initially it was decided to impose quotas until 1989, later it was extended until 2015.

In 1981-1983, it is determined definite quotas for definite countries in terms of 1% growth per year. If the states produced more milk than quoted they would have to pay a mutual liability tax. In some countries, the governments distributed the quotas among the farmers. When it exceeds, the manufacturers were paying more taxes. The tax means are spent on stabilizing the local market, to win markets in other countries, to increase the quality of the production and the competitiveness, as well as for expanding the product range /assortment/.

For some farmers a milk production quota is established based on the size of the owned land and if the farmer wants to expand its production, then he should gain or rent more land. In addition it is allowed to newly distribute the total quotas in a state among the farms. In 1984, there have been stated quotas for 10 member countries of the Eurasian Economic Commission and 104 million tons of milk has been processed that year. In 1997 the volumes fell to 93 million, while in 2011 27 EU Member countries produced 136 million tons of the cattle milk. It brought difficulties in product sales, resulting closing to 350 million milk-producing farms in the EU member states in the last five years.

Quota, as an economic category is not a market tool, but it is an administrative lever, which harms as producers so the consumers. The producers are forced to cut production, while consumers pay a higher price, then they paid in the absence of the quota system.

As a result, by the application of the quota system on the market the prices are raising, which promotes additional dairy imports and the revenue from the sales of imported dairy products goes to the foreign manufacturers.

European experts believe that after the elimination of quota restrictions on milk production must be preserved. In the fixed means of “Milk package” the volume of milk production in 2020 in one country should not be more than 3.5%, in the same time it should not exceed the total amount of milk produced in the EU or 33 percent national production. For Luxembourg, Malta and Cyprus, where the annual milk production does not exceed 500 thousand tones, quota restrictive measures aimed at strengthening the authority of milk producers in the market [2].

Quota has the dual effect: first, it is a limiting tool for production in some countries, for others it is means of stimulating the development. For example, if the EU has not set quotas, then Italy, Austria and Ireland were able to produce more milk than was prescribed by quotas. In contrast, the quotas for individual countries brought increase in milk production and the share in the total volume of milk production in the EU increased, which was improbable to be achieved under the conditions of free competition. Here it is important the business rating of the country, which is the objective for any country to ensure in the international market.

The elimination of quotas for EU countries will lead to changes in production and intensification of competition within some countries, as each dairy-producer will try to place a leading position in the domestic market, increase product competitiveness and find ways to come out in foreign markets.

Germany and France being the cheapest and the most milk-producing countries in Europe will offer greater amounts of milk and dairy products to the market. The EU countries are concerned about the issue that after the elimination of quotas they will have to compete with countries not applying the quotas. In this case, the competition in the market will intensify.

And how it will affect on the Republic of Armenia, no one can clearly answer yet. Anyway, challenges are thrown to Armenia, which needs to be prepared seriously to confront. The first prediction is that the EU dairy imports will increase, which will significantly impact on the economic performance of local producers.

There may be a constraining factor for Armenia its membership to the Eurasian Economic Union, which will probably apply new duties, customs areas will be created, within which will not be applied restrictions for foreign trade, economic customs tariffs, antidumping and countervailing special events.

Within the framework of Custom Union there are applied common customs tariff and other common measures regulating the trade with third countries. Any other intervention is not intended in both internal and external policies of CU member countries [3].

In this case, agriculture of the Republic of Armenia will have to fulfill a number of priority issues within the framework of the Union:

- ✓ in the agreement on common rules for the support to agriculture, presentation of recommendations about implementation of relevant changes,
- ✓ making recommendations on the agricultural products, on the most important resources used in agriculture, over which in transitional period the RA will apply other customs duties differing from CU provided common customs, which is to ensure the competitiveness of agriculture and increasing the economic availability of food,
- ✓ for the state support to agriculture in the framework of World Trade Organization (WTO) membership presenting proposals for revision and obligations assumed by the RA and possible creation of equal conditions for the RA and CU member countries

The purpose of this problem is to take measures to ensure economic availability for foodstuff with the application of the requirements for the competitiveness of agricultural sector, associated with the membership of the RA into the Custom Union.

In case of EEU, Belarus can do adjustments in the dairy market, which produces more than 4% of the raw milk in the global milk market. In 2013 within 3 EEU member countries, only Belarus had positive balance of foreign trade for dairy products. Russian dairy imports exceeded exports by 14 times (imports amounted to 4514.4 million dollars, exports 324.4 million), as for Kazakhstan respectively 15 times (imports 262.8 million, exports 18,0 million dollars), Belarus exported 2294.1 million dollars of dairy products, imported a total of 76.6 million. For comparison, Armenia imported 39.5 million dollars of dairy products and exported only 2,07million dollars, the volume of dairy imports 19 times exceeded exports [4-7].

The share of imports of dairy products to Eurasian Economic Union member countries in the external trade of dairy products is 64.8% and exports from EEU countries 35.2%.The figures for Armenia are more extreme: import of dairy products are 95%, exports only 5%. It is expected magnificent changes in external trade for dairy products in near future, associated with the application of united customs and duties. They are much smaller than existing customs and duties, which will promote the increase of foreign trade in dairy imports from Belarus and Russia, while increase the volume of exports of dairy products from Armenia.

In this case, Armenia will review the strategy for this sector, as for the dairy cattle breading: large and small cattle, sheep and goats structural changes, in favor of goats breading, so inside the cattle breading branch: to increase the share of pedigree, high dairy cattle.

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МЕЖДУНАРОДНЫЙ РЫНОК МОЛОЧНЫХ ПРОДУКТОВ И ПРЕДСТОЯЩИЕ ВЫЗОВЫ ДЛЯ АРМЕНИИ

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Производством молочной продукции занимаются практически все страны мира. В отличие от других продуктовых и не продуктовых товаров, молочная продукция редко подвергается кризисным колебаниям в экономике и с течением времени имеет почти равномерное развитие. В таких ситуациях возникает необходимость регулирования отрасли молочного производства. Это сложный процесс, так как производство молока непрерывно, и во многих случаях рынок не в состоянии регулировать процесс с помощью своих механизмов. Вопросы производства молока и в перспективе будут в центре внимания. В данной отрасли также возрастут объемы капитальных вложений. В статье проанализированы конъюнктура международного рынка, в частности рынка ЕС, выявлена динамика производства молока, удельный вес стран, производящих молоко, перспективы развития на ближайшие 10 лет. Особое место отводится вопросам производства молока в странах Таможенного Союза, указываются действия Армении в контексте развития международного рынка.