

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

DPC/INV/3/Add.9/Rev.2  
30 March 1987

International Dairy Arrangement

Original: English

## INTERNATIONAL DAIRY PRODUCTS COUNCIL

### Reply to Questionnaire 5 Regarding Information on Domestic Policies and Trade Measures

#### NEW ZEALAND

##### Introduction

New Zealand is heavily dependent on agricultural exports to finance imports for consumption and raw materials for industry. A quarter of the value of New Zealand's exports comes from the dairy industry (including dairy beef). As an earner of overseas exchange, dairying is therefore of considerable importance to the New Zealand economy.

The New Zealand dairy industry is organized entirely on a co-operative basis with producers having full control over both production and marketing of dairy products. At the production level, farmers supply milk to co-operatively owned dairy companies for processing into various dairy products. At the apex of the co-operative structure is the New Zealand Dairy Board which is comprised of fourteen members, eleven of whom are representatives of the dairy farmers. The Dairy Board enjoys statutory powers to acquire and market all dairy products intended for export.

The town milk industry is organized as a separate sub-sector with the primary objective of providing a regular supply of whole milk for liquid consumption right through the year. Town milk suppliers' production is governed by individual quotas with any surplus production taken up by the manufacturing sector. Milk processing is carried out by some forty milk stations, most of which are owned by producer co-operatives. Distribution of milk to wholesale and retail outlets (including doorstep delivery) is carried out by some 1,200 milk vendors who operate within zones prescribed by the Milk Board, which has broad statutory responsibility for administering the town milk industry. In light of various changes in government policy and the domestic environment, the Government referred the town milk industry for a review by the Industries Development Commission. Since receiving the IDC report in late 1985 the Government has moved to deregulate the domestic milk industry with particular reference to production and processing. The Government has however stated its continuing commitment to a home delivery service.

The manufacturing dairy industry has operated a self-balancing stabilization system in its various forms for well over four decades. The fundamental aim of the system has been and remains to provide for a measure of price stabilization from season to season in the face of fluctuating returns on the international market.

Part A

Key elements of the present dairy industry stabilization system are:

- (a) the establishment of basic values for the two main components of whole milk, namely milk fat and solids non-fat, and
- (b) operation of a self-balancing stabilization account.

The prices received by dairy farmers are determined with reference to the season's basic values for milk fat and solids non-fat (SNF) in whole milk. Under this system, the dairy products prices authority fixes the basic values for milk fat and SNF in whole milk and these values are used by the Dairy Board to determine the purchase prices for dairy products acquired for export. Milk fat and SNF values are established with primary regard to the anticipated level of export realizations, the state of the industry's account, and the need to maintain stability and efficiency in the dairy industry. The basic values for milk fat and SNF may be varied by not more than 10 per cent up and 5 per cent down from the basic values fixed for the preceding season. The Dairy Board Act does provide for greater than 10 per cent increases under exceptional circumstances.

At the end of each dairy season the Dairy Board assesses its trading accounts and if the industry has made a surplus on its sales the Dairy Board may distribute up to 50 per cent of the season's trading surplus by way of end-of-season payment. The balance is deposited into a stabilization reserve account. The basic price for the 1985-86 season was set at 400 cents.

As described earlier the season's basic values for milk fat and solids non-fat (SNF) in whole milk are used by the Dairy Board to fix the purchase prices acquired for export. Actual returns received by producers can vary for each co-operative company and are influenced by such factors as variation in manufacturing costs, products manufactured, and dairy company financial distribution policies.

The change in New Zealand's exchange rate régime is of major significance to the dairy industry (and other export sectors). Prior to March 1985, New Zealand operated a managed exchange rate system under which the value of the New Zealand dollar was determined with reference to a trade-weighted basket of currencies. From March 1985 however, New Zealand has moved to a floating exchange rate system, with the day-to-day value of the New Zealand dollar being determined by market forces. For a short period after the float there was little change in the value of the New Zealand dollar, but since then the dollar has appreciated vis-à-vis several major currencies, leading to lower export returns to the dairy sector. The introduction of the floating exchange rate régime and various other domestic policy changes have introduced new elements into the price determination process. In June 1986, the Dairy Board set the basic price at 225 cents per kg. of milk fat, a reduction of 44 per cent on the previous season's payout of 400 cents. This reflected the unfavourable

market outlook as well as a changed exchange rate and financial régime. In November 1986 the Dairy Board increased the basic price to 255 cents and this was followed by a further increase in February 1987 to 320 cents. While this price represents a significant improvement on the 225 cents set at the beginning of the season, it is still some 20 per cent below the 1985-86 payout.

The dairy industry also introduced a voluntary scheme to curb milk production in the 1986-1987 season. Participating farmers are to be paid a fixed amount by the Dairy Board to reduce milk output below a base level, or to curb projected expansion in production.

A further provision of this scheme allows the Dairy Board to reimburse dairy companies who dispose of milk or milk fat to non-traditional users after it has been collected from farmers. Payment would be made according to the quantity of milk fat sold and no production base line would be needed. Companies would be required to obtain the best possible price from sales, and they would be reimbursed up to the normal milk fat price and for any expenses incurred in handling the milk.

Possible outlets for milk disposed of under this "non-processing" option include major calf rearing operations.

An industry-imposed moratorium on new milk supply from farms not having supplied for two years previously came into force on 1 October 1985. The aim of the moratorium is to check over-production and over-supply. The moratorium was due to expire on 1 October 1986 but has been extended into the 1986/87 season and should be reviewed in November 1986.

#### Part B Internal Prices and Consumption

Representative current retail prices for major dairy products are as follows:

(\$NZ)

Liquid milk	(whole)	0.45 per 600 ML*
Butter	(salted)	\$1.72 (including GST) per 500 gr. pack
Cheese	(mild Cheddar)	\$6.00-\$6.50 (including GST) per 1 kg. block

---

\* Standard price: above standard prices are charged in a number of areas to cover higher costs of milk processing and distribution in those areas.

#### 2 and 3. Factors and policies affecting consumption

##### (a) Liquid milk

As a basic item of food the Government has had a policy of subsidizing the consumption of liquid milk for direct consumption. In recent years the

government policy had been to hold the total expenditure on milk subsidy to \$NZ 30 million per annum. Following a review of its assistance and welfare policies the Government decided to terminate the milk subsidy with effect from 1 March 1985. As a consequence the consumer price was increased from 30 cents per 600 ml. bottle to 35 cents on 1 March 1985. Since then successive price increases, reflecting various internal cost increases, have lifted the consumer price of milk to 45 cents per 600 ml. bottle.

Liquid milk consumption per capita has remained relatively static in the last couple of years despite a continuing decline in fresh white milk consumption. The difference has been made up by increasing consumption of cream, UHT milk, flavoured milk, yoghurt and cottage cheese, etc. Over the twelve-month period ended August 1985, white milk sales fell by 2.7 per cent. At this stage no significant changes in consumption patterns have emerged as a result of changes in milk consumer prices and subsidy payments.

(b) Butter

The manufacture of butter for local consumption receives an equivalent return to that the manufacturer would have received if it had been bought by the Board for export. Prior to 1 April 1980, if the domestic price, which is under price control, was lower (or higher) than the export the difference was paid to (or by) the manufacturer from (or to) an equalization account. With rising returns the equalization account registered increasing annual deficits which were offset by transfer payment by Government. From 1 April 1980 the Government ceased these de facto consumer subsidies for local market butter and responsibility for equalizing domestic return and export markets now rests with the Dairy Board.

Butter consumption for the year ended 31 May 1986 amounted to 39,500 tonnes, a small increase on the 39,300 tonnes consumed the previous year. The domestic table fats market has changed rapidly over the last decade, with butter coming under increasing competition from margarine. The New Zealand Government is currently reviewing the domestic marketing arrangements with a view to deregulating and promoting greater competition in the domestic table fats market.

(c) Cheese

Domestic cheese prices also move broadly in relation to export price levels. A levy is applied by the industry to finance TV advertising and other promotion. As a result of intensive advertising of the "Buy a Bigger Block" campaign, consumption has grown from 15,800 tonnes to 26,100 tonnes between 1975-76 and 1978-79. Since then there has been some stabilization in the rate of growth in cheese consumption. For the year ended May 1986 cheese consumption amounted to 27,500 tonnes reflecting a small increase on previous year's level.

Part C Measures at the frontier

1. New Zealand tariffs on dairy products are relatively low (see appendix) where they are compared to other countries. Following a recent review, tariffs on butter and cheese have been removed. Tariffs on other dairy products listed in the appendix are currently under review.

2. There are no quantitative restrictions or quotas on the import into New Zealand of main dairy products - butter, cheese, casein and milk powders. Only in the case of one dairy product (04.02.001 - condensed or evaporated milk) does a small variable tariff apply (see table for tariff details). Measures other than tariffs affecting import of dairy products into New Zealand include labelling and packaging regulations and marketing standards or regulations.

3. Tariff classification is according to CCC Nomenclature. New Zealand applies a policy that would permit the free flow of dairy products in international trade. Consequently minimal restraints are imposed on imports. Due to economies of scale and a favourable climate, dairying is a low-cost industry and can compete openly with dairy imports. The efficiency that has been achieved can in fact be attributed to the sensitivity of the industry to international market conditions. This has forced a continuing search for economies of scale and manufacturing flexibility.

Part D Bilateral, plurilateral and multilateral agreements

1. The following trade agreements to which New Zealand is a signatory make specific provision for according preferential treatment to dairy products.

(a) The Australia/New Zealand Closer Economic Relationship Trade Agreement (ANZCERTA). This Agreement, superseded and advanced the provision of the New Zealand/Australia Free-Trade Agreement (NAFTA). Under the new Agreement the 1,220 tonne quota relating to sendings of Cheddar cheese from New Zealand to Australia was removed. Under ANZCERTA the overall trade in dairy products between both countries is being developed through joint industry consultations, provision for which has been incorporated in the Agreement.

(b) The trade agreement between the Government of New Zealand and the Government of the People's Republic of China: both signatories agree to facilitate imports from and exports to the other country with particular importance being attached to a number of specific products. For Chinese exports to New Zealand this includes agricultural products and for New Zealand exports to China this includes dairy products.

(c) The trade agreement between the Government of New Zealand and the Government of the Federation of Malaysia: this agreement contains three categories of preferential treatment for goods enumerated in schedules attached to the agreement, which shall be accorded by one signatory to the other. The categories are:

- (i) the rates of duty not being higher than those specified in the schedule concerned;
- (ii) margins of preference not to be lower than those specified in the schedule concerned;
- (iii) the preferential tariff of the signatory being used for the benefit of all other goods.

In terms of these three categories of treatment, New Zealand exports to the Federation of Malaysia of the dairy products listed below are entitled to rates of duty no higher than those specified (category (i) above):

<u>Federation of Malaysia</u> <u>Tariff Item</u>	<u>Description of goods</u>	<u>Rate of duty</u>
022.022	Milk powdered, skimmed for human consumption	Free
022.023	Milk powdered, skimmed for animal consumption	Free
023.012	Butter, fresh, whether salted or not. Not in airtight containers.	6 cents per lb.
024.011	Cheese	7 1/2 per cent
029.093	Milk-based infant food	Free

While on the dairy products listed below the margins of preference are not to be lower than those specified (category (ii) above):

<u>Federation of Malaysia</u> <u>Tariff Item</u>	<u>Description of goods</u>	<u>Margin of preference</u>
022.021	Milk powdered, full cream	\$4 per 100 lb.
022.022	Milk powdered, skimmed for human consumption	\$4 per 100 lb.
022.023	Milk powdered, skimmed for animal consumption	\$4 per 100 lb.

<u>Federation of Malaysia</u> <u>Tariff Item</u>	<u>Description of goods</u>	<u>Margin of preference</u>
023.011	Butter in airtight containers	4 cents per lb.
023.012	Butter, fresh, whether salted or not. Not in airtight containers.	4 cents per lb.

Canada/New Zealand Trade Agreement 1982

The New Zealand/Canada Trade and Economic Co-operation Agreement came into being on 1 January 1982. The Agreement maintains ("freezes") the existing preferential tariff rates applied by both countries and contains provisions to develop further trade, investment and technological co-operation between Canadian and New Zealand companies.

In the Agreement Canada reaffirmed its intention to turn to New Zealand as a preferred supplier of butter when Canada has an import requirement for butter, and to consult with New Zealand if consideration is being given to changing the import régime on cheese, buttermilk powder or casein. If, after consultation, intensification of quantitative restrictions still occurs, resulting in substantial impairment of the Agreement, Canada is then required to offer New Zealand a compensatory benefit.

Tariff preferences:

	<u>New Zealand</u>	<u>BP</u>	<u>m.f.n.</u>
Casein	12 1/2 per cent ad valorem	17 1/2 per cent ad valorem	25 per cent ad valorem
Milk powder	1 cent/lb.	2 1/2 cents/lb.	3 1/2 cents/lb.
Butter	5 cents/lb.	8 cents/lb.	12 cents/lb.
Cheese	1 cent/lb.	3 cents/lb.	3 1/2 cents/lb.

Note: The rates for New Zealand are frozen as from 1 January 1982.

2. In respect of New Zealand dairy exports to the European Community (EC), special access provision has been made for New Zealand butter to enter Britain although a levy is imposed on these imports. Under Protocol 18 of the Treaty of Accession negotiated at the time of British entry to the European Community, New Zealand was provided with access to the British market for specified quantities of butter for an initial period of five years ending 31 December 1977. This special arrangement has subsequently been renewed for two three-year periods expiring on

31 December 1983. A five-year access arrangement for the import of New Zealand butter until 31 December 1988 came into effect on 1 January 1984. Under this arrangement the levels of access for 1987 and 1988 have to be determined by 1 August of the preceding year and the post-1988 access régime is to be decided by 1 August 1988. Initially New Zealand was obliged to respect a minimum c.i.f. price on which a special variable levy was added in order to bring the selling price of New Zealand butter up to the level of internal Community butter prices. In 1981, this minimum selling price obligation was removed and replaced by a special levy system (with the levy payable tied to the UK butter market intervention price).

3. In addition to the trade agreements listed above, which contain specific provisions on according dairy products preferred treatment, New Zealand is a signatory to a number of m.f.n. trade agreements with other countries where dairy products would be eligible to receive such m.f.n. treatment.

These countries include:

- The Arab Republic of Egypt
- The Bulgarian People's Republic
- German Democratic Republic
- The Hungarian People's Republic
- The Republic of the Philippines
- The Polish People's Republic
- The Republic of Iraq
- The Republic of Italy
- The Republic of Japan
- The Republic of Korea
- The Socialist Federal Republic of Yugoslavia
- The Socialist Republic of Romania
- The Union of Soviet Socialist Republics
- The Islamic Republic of Iran

4. In the Multilateral Trade Negotiations, New Zealand signed two bilateral agreements which provided for improved trading conditions for dairy products. These agreements were signed with the United States and the EEC as published in the white paper on the negotiations published by the New Zealand Government and which is publicly available.