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TARIFFS AND TRADE

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International Dairy Arrangement

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GATT: INTERNATIONAL DAIRY ARRANGEMENT

Note by the Australian Delegation

The following communication has been received from the Permanent Mission of Australia to the GATT.

Australia is concerned that the improving international market situation for dairy products could be jeopardized by an expansion of subsidized production in the major producing regions.

A recent report of the OECD Group on Meat and Dairy Products provided medium-term forecasts indicating that the recent development towards an improved balance between OECD production and consumption was likely to continue for the ensuing five years. However, the Group noted that there were risks to this outlook with the implication that "milk production potential in the medium term is possibly much greater than is indicated by the production forecasts and that the dairy market and dairy policies will have to be carefully monitored over the coming years".

In a situation where only some 6 per cent of milk production equivalent finds its way onto world markets and some 40 per cent of this trade originates from the EC it is clear that EC market management measures continue to have a substantial impact on the international market.

Recent EC measures to constrain surplus production and reduce stockpiles have had a direct impact on the market. In the United States, the 1985 Farm Bill has been largely beneficial in limiting the impact of subsidized dairy production on commercial markets. On the demand side, consumption of dairy products in Japan is increasing and Japan is in the process of liberalizing access although only for some of the dairy products for which access arrangements had been found to be inconsistent with GATT principles. The trade in dairy products between Australia and New Zealand will be free from 1 July 1990.

Because of the heavy influence of dairy policies and the market management measures of some major producers on the international market, Australia believes it would be useful for such developments to be taken

into account by the GATT secretariat in preparing the Status Report for the forthcoming IDA meeting in September.

A critical factor which could affect the dairy market outlook is the maintenance of milk production quotas in the EC. The so-called SLOM case is expected to result in the additional allocation of a minimum of 600,000 tonnes of milk quota. Furthermore the EC has under way a review of the functioning of the milk quota system. Clearly there could be pressure to use this review as a basis for some relaxation of quotas.

In the United States, discussions are under way on proposals for the next United States Farm Bill. It is important that any proposals concerning the dairy industry do not further subsidize production at a time when substantial productivity increases are expected in the United States dairy industry. There is a concern that the United States could retaliate against attempts to manage international dairy markets by means of special assistance to its own producers. Both President Bush and Agriculture Secretary Yeutter have pointed to a possible expansion of United States dairy products exports in response to market signals. United States butter stocks have risen above trend and recently sales to the USSR of some 75,000 tonnes have been foreshadowed.

In general, Australia considers the outlook for the international dairy market to be sound. However, that outlook depends on the continuing containment of subsidized production and preventing the distortion of international market signals to producers. Appropriate dairy market management policies particularly in the EC will be critical to the achievement of these objectives. For its part, Australia has continued to implement policies in the interests of developing a more market-oriented industry responsive to market conditions.

In view of some uncertainties regarding the future direction of dairy policy, principally in the EC and the United States, a full debate on the market would be desirable at the September meeting of the International Dairy Products Council and the Status Report should provide a basis for such a comprehensive discussion.