GENERAL AGREEMENT ON TARIFFS AND TRADE

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Group on Dairy Products

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STATEMENT BY THE REPRESENTATIVE OF NEW ZEALAND ON 17 MAY 1965

The importance of the dairy industry's contribution to New Zealand export earnings and its importance to the New Zealand economy generally does not need to be underlined for the members of the Group. Exports of dairy products provide directly about one third of New Zealand's export income annually; and a substantial proportion of New Zealand beef exported can also be regarded as a by-product of the dairy industry, as well as a proportion of the meat industry by-products.

The New Zealand dairy industry is essentially an export industry. Some 80 per cent of New Zealand butter production and 93 per cent of our cheese are exported. This is not by any means a common situation among dairy producing countries. I should perhaps sketch briefly the reasons why our industry has developed consciously in this direction.

New Zealand has virtually none of the mineral resources basic to industrial development (although there are at present good prospects for a small iron and steel project based on iron sands). Land, however, is relatively abundant in relation to population. Our soil is not naturally fertile - for instance by comparison with large areas of Western Europe - but its productivity has been greatly improved by the intensive application of fertilizers over a long period and development of the techniques of grassland farming almost as an art. Our climate is specially favourable for livestock production, particularly dairying because the absence of very cold winters and only occasional dry summers enables hand feeding of stock to be dispensed with. For historical reasons we have been fortunate in avoiding the worst features of the structural problems of farming in older countries. Our dairy farms are relatively large and heavily capitalized. The productivity of labour in farming is extremely high. It is a common practice for a farmer to manage a sixty to seventy cow herd with perhaps some assistance from his family and some operations done by contract. Cases are not unknown of a farmer with one employee managing a herd up to two hundred cows. These are perhaps exceptional but there is a marked tendency in recent years for herd sizes to become larger; in other words, for efficiency to increase.

Given these natural advantages in dairying and the absence of resources other than grass, it is not surprising that we have become dependent on exports of butter, cheese and other dairy products. While Government policy for many years has been to encourage the diversification of New Zealand production and exports, it is a fact familiar in all countries in the early stages of industrialization that the growing demand for imports of plant and raw materials, combined with a rapidly rising population, and a reasonable rate of economic growth, increase the need to expand agricultural products. It is for this reason that the provision of new trading opportunities for our expanding export of dairy products is vital to New Zealand. We not apologise for this; we have no option. Nor do we accept the view that increasing sales at remunerative prices of dairy products to the industrialized countries of the Northern hemisphere is an unlikely basis on which to plan New Zealand's future economic growth. The proportion of world dairy production entering international trade is very small. For example, in the United States annual production is between 600,000 and 700,000 tons, in France some 400,000 tons, West Germany nearly 500,000 in the Community as a whole well over 1 million tons. Cheese production follows a somewhat similar pattern.

Exports on the other hand are relatively small. New Zealand is the principal exporter of butter with between 170,000 and 180,000 tons, Denmark about 100,000 tons, Australia between 80,000 and 90,000 tons. Exports of most other countries are relatively small although in total they constitute a significant proportion of world trade. This is a factor of considerable significance in the context of our present negotiation. Trade in cheese is again somewhat similar with the Netherlands, the principal exporter, followed by New Zealand and Denmark in that order. The significance of these figures is that relatively minor changes in production and adjustments to the conditions of access to world markets have a much magnified effect on international trade. We believe that there are definite possibilities in many countries for increasing import opportunities without creating real problems for domestic industry. As the lowest cost producer of dairy products, we would expect to compete successfully for these expanding markets.

If I might turn now to the New Zealand system of "support and protection". So far as protection goes, our system is almost uniquely simple. New Zealand has merely a tariff: m.f.n. rates are 10 per cent for butter; 10 per cent for cheddar cheese; and 55 per cent for other kinds.

From 1 July the last of the quantitative restrictions - on specialized cheeses, i.e. other than cheddar - imposed under Article XII of the General Agreement will be removed. There have been no restrictions on butter and hard cheeses for some years. Imports are in private hands and the New Zealand market is open to those who can compete. The normal anti-dumping and countervailing duty legislation applies, of course, to imports of dairy products.

There are consumer subsidies on butter and milk for direct consumption. These were introduced as war time economic stabilization measures. They have probably been factors in the high level of per head consumption of these products. Undoubtedly while they are consumer subsidies they could be regarded as being of some assistance to the dairy industry because of the higher level of consumption they encourage. Clearly to the extent that they have kept supplies off world markets they have assisted all dairy exporters and a policy of subsidizing domestic consumption which is in fact followed in one or two other countries, is one to which we would not raise any objection at all. I might say that this high level of consumption of butter and of a high fat content milk seems to have been achieved without an unduly high incidence of cardiac troubles.

This model could well be followed by others.

There are two other areas of Government intervention in the dairy industry - "intervention" not "support" and thus not strictly relevant to these discussions. However, as there is sometimes some misunderstanding of the functioning of these measures, I hope others will bear with me if I explain them again.

By legislation the control of dairy products for export rests with the Dairy Production and Marketing Board composed of industry representatives and Government appointees with the former in the large majority. The Board is vested with the sole right of exporting dairy produce. It purchases all dairy produce for export, and negotiates with overseas buyers in respect of prices and quantities.

New Zealand has a guaranteed price arrangement for butter and cheese but not for other products. When this system was introduced in 1936 prices were literally guaranteed by the Government in the sense that the Government was prepared to make up any marketing losses. However, this happened in only one year and for a relatively small sum, some £250,000. The size of the dairy industry in relation to national income is so great that it would not be possible to support the industry to any marked degree.

The initiation of war time long-term contracts for all products soon af‑ introduction of the guaranteed price scheme ushered in what subsequently became a stabilization arrangement; a system along the lines of that outlined in Article VI(7) of the General Agreement.

Guaranteed prices are fixed each year by the Dairy Products Prices Authority which is an independent body comprised of industry and Government representatives under an independent chairman. The Authority in determining the price takes into account the following criteria:

(a) The necessity in the public interest of maintaining the stability and efficiency of the dairy industry;

(b) The amount which butter and cheese acquired by the Board is realizing, and market prospects for the season in respect of which prices for butter are required to be fixed;

(c) The state of the accounts established under sub-section (1) of Sectio‑ ‑‑ of this Act;

(d) Any submissions made by the Board;

(e) Any other matters deemed to be relevant.

The Authority is required to consult the Government, but its decisions are made independently. The Act sets down, however, that price changes shall not exceed 5 per cent in any one year, that is 5 per cent up or down. This provision is the concrete expression of a formal agreement between the Government and the dairy industry in 1952 that over a period the dairy industry account must be self-balancing.

This means, of course, that in general the guaranteed prices fluctuate in sympathy with overseas realizations. The farmer is cushioned against sharp and severe falls but he knows that this means that if the industry goes into debt that debt must be repaid. This is precisely what happened. By 1956 the industry account was £28 million in credit but within two years this had been converted into a deficit of £7 million. However, this was repaid within two years partly through improved overseas prices and through a drastic reduction of about 15 per cent in the guaranteed price. This price was reduced to 5 per cent one year and the following year, because of the serious situation, the section of the Act limiting the reduction to 5 per cent was annulled and the price reduced a further 10 per cent. This brought it down to 32 pence per pound of butter fat, a very low figure by any standards.

The 1959 improvement in overseas prices did not, of course, last and by the end of the 1961/1962 season the account was again in debit, this time by £6.7 million. However, improved prices since then have enabled the debt to be repaid and as at 31 May this year it seems that the industry will have a small credit balance.

In 1964/1965 the guaranteed price was increased by the full 5 per cent to 33.9 pence. Also in years when there is a surplus on the year's trading operations there is provision to make an extra payment to the producers of up to 50 per cent of this surplus, the remaining 50 per cent going to build up reserves. This was done for 1963/1964 and probably will be repeated for 1964/1965. This would mean that the ~~guaranteed~~ price to producers for 1964/1965 would in effect be about 34.9 pence. This is equivalent to an overseas price, that is a London market price, of between 330 shillings and 340 shillings per cwt., a very low figure compared with butter prices in most countries especially when it is recalled that the price in the last year of long-term contract, 1954, was 327 shillings per cwt., since when there has of course been considerable deterioration in the value of money in every country.

The return to cheese producers is based on the guaranteed price for butter. These producers receive a differential payment which varies from time to time. This differential reflects certain cost differences but mainly the value of the non-fat solids in the milk.

Finally, I must emphasize that New Zealand has no export subsidies. As I have already indicated, because of the high proportion which export earnings constitute of total national income, any significant export aids are not practicable. We endeavour to compete on world markets on the basis of genuine low costs. We do not regard this as a crime nor should the efficient production of food in a hungry world be so regarded.

I apologize for traversing New Zealand's dairy situation in this amount of detail but the Committee will appreciate the significance to our country of the dairy industry and the importance for us of being able to achieve an expansion in our export earnings through the improved access which it is the aim of this exercise to accomplish.