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Group on Dairy Products

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STATEMENT BY THE REPRESENTATIVE
OF THE EUROPEAN ECONOMIC COMMUNITY
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Before describing the European Economic Community's attitude to the Working Group on Dairy Products, the EEC representative thinks it desirable to emphasize the Community's interest in the production of and international trade in dairy products.

In 1963 the production of cows' milk reached a total of 65.8 million tons in the EEC. As regards the utilization of this production, apart from the quantities intended for the feeding of cattle, 47 per cent was converted into butter, 16 per cent into cheese and 6 per cent into preserved milk, while the remainder, or 31 per cent, was kept for human consumption in liquid form. The corresponding quantities of products obtained amounted to 1.2 million tons of butter, 1.4 million tons of cheese, 1 million tons of condensed milk and 0.6 million tons of powdered milk.

In the international trade in dairy products the EEC occupies a place which, without being always a leading one, is nevertheless substantial. The Community's trade is particularly important as regards cheese. Imports from third countries, which have constantly increased in the last few years, amounted to 111.8 million tons in 1963 or 20 per cent of world imports of this product. In the same year, exports to third countries amounted to 79.2 million tons or 14.4 per cent of world cheese exports.

In the case of butter the EEC's share in world trade is a smaller one, imports from third countries amounting to 42.4 million tons or 6.9 per cent of world imports and exports to 52.5 million tons or 7.6 per cent of world exports.

Other figures could be quoted to show the EEC's importance in the sphere of dairy products, but the present statement is rather aimed at bringing out the special problems raised by this sector from the point of view of commercial negotiations.

Diversity of national dairy policies and widespread nature of measures of support

The attention of the members of the Group has already been drawn at previous meetings to the widespread nature of non-tariff measures utilized within the framework of dairy policies. Among the forty countries studied in the past in Committee II, it has been found that thirty-five resorted in one form or another to non-tariff measures to protect their dairy industries. A comparison of dairy policies today seems to confirm this conclusion. Thus, to take a few examples, a large exporter like Australia has thought it necessary to resort, while practising a system of equalization between receipts obtained on the domestic market and on the export markets, to certain government subsidies to supplement the income of producers. Moreover, a large producer like the United States has been led, in order to maintain the income of its producers at the desired level, to isolate itself in practice from the international market by means of quantitative import restrictions.

The range of measures employed to support prices and producers' incomes thus appears to be an extraordinarily wide one. Without attempting to produce an exhaustive list, the following may be mentioned:

- systems for the equalization of receipts obtained either between the different end utilizations of milk or between domestic markets and exports or even between the different regions;
- price guarantees by different methods either in order to ensure producers the highest possible remuneration or to defend them against falls in market price;
- the most varied techniques are used at the frontier: customs duties, levies, quantitative restrictions, import monopoly. The same is true on the domestic market: direct purchase by the State or special agencies, deficiency payments covering the difference between guaranteed prices and market prices, fixed bonuses, consumption subsidies, quality or transport bonuses, etc. The list is a very long one.

Negotiations relating solely to customs duties must once again be regarded as inadequate

The inadequacy of purely tariff negotiations has been brought out in particular by the exchanges of views which the members of the Group have had with the United States representative. The United States duties on butter and cheese are by no means exorbitant, but in order to facilitate the support of prices on the domestic market at the parity level, severe quantitative restrictions are applied and constitute in practice the principal obstacle to access to the American market. An offer referring to customs duties alone therefore seems unlikely to be effective, and can be of very little value to exporting countries.

The negotiations proposed by the EEC are of quite a different nature from traditional negotiations relating only to frontier protection, and their importance is particularly clear in the case of dairy products owing to the widespread nature of support policies in this sector. The exchanges of views which have taken place hitherto have shown the wide distance between the real effect of domestic policies and the nature of the offers which a particular country intends to make. It may even be doubted, in the light of this discussion, whether the countries which have expressed their views really intend to negotiate on dairy products and to enter into effective commitments. It is true that the comparison between dairy policies which is now in progress is not aimed at obtaining precise offers immediately, but it should bring out what factors in the policies of protection and support must be taken into account in the negotiations and must form the subject of definite commitments on 16 September next.

Recently the Community has been pressed to specify, for example, what amount of support it would be prepared to provide for products such as rice. In answering these questions the Community went a long way towards indicating the scope which it intended the negotiations to have, since to say that one intends to consolidate a support level implies the acceptance of a commitment affecting the entire domestic cereals policy for the product concerned.

The exporting countries placed great stress on the Ministerial Resolution of GATT of May 1963, while giving prominence only to the formula regarding "the creation of acceptable conditions of access to world markets" with a view to exerting pressure on the importing countries and particularly on the EEC. Such tactics are, however, very risky, and the exporting countries should be cautious and should ask themselves whether the obtaining of quantitative guarantees from the importing countries in one form or another would not constitute a short-lived satisfaction. The Community recalls that it is not prepared to give quantitative guarantees, not only because such guarantees are incompatible with the common agricultural policy, but also because it considers that that is not a good way of conducting an agricultural negotiation. The EEC proposes to go beyond a purely tariff negotiation, and this idea is based on such economic realities as the interdependence of markets and economies and the existence of policies for the support of agricultural production. The Community concludes that commitments must be entered into on the content of the agricultural policies themselves.

When dairy policies are compared in this way, it is important that the different participants should be able to define their approach to the negotiations. Account should be taken of the special features of production and trade which specifically concern the dairy sector, including the following:

- the importance of milk receipts to a very large proportion of agricultural producers owing to their volume and the fact that they are spread over the whole year;
- the connexion between dairy production and the production of beef;
- the diversity of products obtained from milk and the volume of international trade in these products;
- the very definite upward trend of production which might raise problems of structural surpluses in relation to effective demand;
- the instability of prices, particularly butter prices, and its incidence on the evolution of consumption;
- the existence of potential demand in developing countries and the somewhat anarchic character of non-commercial deliveries, the volume of which shows sudden variations from one year to the next.

All these special aspects militate in favour of abandoning any partial product by product approach in favour of a more comprehensive approach. In the EEC's opinion, the best way of ensuring the achievement of the objectives laid down in GATT's Ministerial Resolution of May 1963 is the conclusion of a General Arrangement on dairy products.

The negotiation of a General Dairy Products Arrangement

It should be emphasized in particular that at this stage of the Group's work and of the negotiations, there can be no question of the Community's submitting complete proposals. All that can be done is to put forward certain ideas, some of which will have to be supplemented or even modified, but it should already be clear that the EEC intends at the agreed date to make offers based on specific proposals for a General Arrangement.

The principal points with which such an Arrangement should deal seem to be the following:

1. Field of application

The essential object of the Arrangement should be to restore order to and regularize the world butter market. This product plays such an important part in the milk producers' remuneration that support measures and price guarantees for the benefit of the producers apply primarily to butter.

Butter, which only involves the fatty element, constitutes only one of the three possible aspects of the valorization of milk. Account should also be taken of the valorization of the nitrogenous substances and of technical valorization making it possible to obtain processed products of high quality. The real dairy problem seems to be increasingly not only a problem of production at the level of agricultural exploitation, but also a problem of industrial processing of the

basic material. The connexion which exists between the various dairy products at the processing level therefore makes it necessary to envisage the inclusion in a General Arrangement of the products which are most important to trade and which at the same time are the most decisive from the point of view of obtaining the best value from milk. In this connexion, it would no doubt be desirable to include preserved milk including liquid condensed milk and powdered milk, and also possibly certain specific types of hard or semi-hard cheese in which there is traditionally a large trade.

Delimited in this way, the General Arrangement would in practice cover the essential dairy products and would thus make it possible to deal more effectively with problems raised by the production, processing and exchange of products in this sector.

2. Regularization of supply and concerted stocking and marketing policy

Latterly, a reduction in stocks of dairy products has improved the prospects of balancing the market, although a certain increase quite recently might give cause for alarm as to the risk of surplus stocks being reconstituted.

In practice, stocking problems present a different aspect here than they do in the case of cereals, the reason being that the duration of stocking of dairy products is subject to a limitation in two directions: firstly, a technical limitation which can of course vary with each product and even according to the method of manufacture of the product, butter manufactured from sour cream keeping less well than butter manufactured from sweet cream; and secondly, an economic limitation, since apart from the cost involved, stocking involves a deterioration in the qualities of the product, which in the case of butter may have harmful effects on consumption and weaken the competitive position of butter as compared with fats of other origins.

The rationalization of stocking on a multilateral plane therefore appears necessary, and consultations might thus be the best means of initiating a regularization of supply and achieving a concerted policy as regards stocking and marketing. The introduction of a procedure of consultation within the framework of the Arrangement would make it possible to detect in time the formation of surpluses, and would facilitate the taking of decisions regarding the best use to be made of milk, giving preference to products for which there is the most elastic demand and to exports to the most profitable markets.

3. International reference prices

The present instability of prices makes it necessary to agree on the level of prices to be practised in international trade and on the machinery necessary to ensure observance of these prices.

In the case of butter, an international reference price might be negotiated at a level permitting a satisfactory disposal of milk in the countries which produce it in favourable conditions and enjoy a substantial share of world markets. The level of this price should also take into account the purchasing power of consumers. As regards the method of fixing the price, although this problem still needs careful study, would it not be possible to consider fixing this price at the c.i.f. stage, and go on to determine "f.o.b. derivative prices" which would have to be observed by exporters in international trade?

As far as preserved milk is concerned it seems to the European Economic Community that the Paris agreement regarding the observance of a minimum price for powdered whole-milk constitutes a first step of the greatest importance. The General Arrangement might model itself on this system, which contains fairly precise rules and in particular a price scale according to fat content. The system might be improved and extended to powdered skim milk and liquid condensed milk sweetened and unsweetened.

Lastly, for cheeses of well-defined types coming within the scope of the Arrangement, a somewhat similar mechanism of price stabilization might be elaborated.

The experience acquired in the EEC on the basis of carefully selected and more or less standardized pilot products might prove particularly useful.

The reference prices thus fixed would be minimum prices to be observed in international trade.

4. Domestic policies and amount of support

The remuneration of the milk producer being at present closely dependent on the valorization of the fatty substances of milk in the form of butter, the essential commitment should refer to the national policies followed with regard to butter by each of the parties to the Arrangement. This commitment should, in the Community's opinion, take the form of consolidation of the amount of support given to butter by each of the parties to the Arrangement. The amount of support for butter would be expressed by the difference between the international reference price and the representative factors of the butter support level. The market price may not be sufficiently representative and consequently when there are subsidies directly affecting the production and price of butter, they must be incorporated in the support level.

The support given to butter production is a fundamental factor in the policy of support given to dairy products. Nevertheless, in order to guarantee adequate remuneration to the milk producer, the support given to butter should be supplemented by measures of support in favour of other dairy products, particularly those manufactured on the basis of the nitrogenous constituent of milk (e.g. preserved milk, cheese) which shows once again the interdependence

of the various products and the need to include them all together in the General Arrangement. For these products, the amount of support corresponds once more to the difference between the international reference price and the representative factors of the support level.

As far as the EEC is concerned, the amount of support given to butter might be expressed by the difference between the international reference price and the threshold price. This degree of support would be bound. Similar commitments might be entered into on preserved milk and cheese. In all cases in which previous tariff concessions exist, the binding of the support level would take into account the existence of a bound customs duty.

From the point of view of the European Economic Community, whose whole agricultural policy is defined in terms of prices and based on market prices, the support given to producers appears clearly in the difference between the price on the domestic market and the price on the international market, and consequently the amount of support given to a particular product represents perfectly the overall effect of the policy pursued. The support level method proposed by the Community is only aimed in practice at inducing the parties concerned in the negotiation to enter into commitments on the content and effects of their agricultural policies, and this method comprises all the necessary factors of elasticity. The Community could thus agree to commitments being entered into in a form other than the binding of a support level, but it would then be necessary, in order that they should be considered as equivalent to those of the EEC, that they should apply to all the policy factors which affect the production of and trade in the product concerned.

5. Special problems affecting low-income countries

Low-income countries are usually very small producers of dairy products, but they are also, for obvious reasons, small consumers. A policy of food assistance to low-income countries might constitute a supplement to the concerted policy for the regularization of supply and marketing. Nevertheless, deliveries of dairy products to these countries on non-commercial terms should, within the limits set by their total volume, take place in such a way that they do not disturb the development of domestic dairy production desired by the beneficiary countries. Here again, the institution of consultations within the framework of the Arrangement might make a positive contribution to the regularization of non-commercial transactions for the benefit of these countries.

Conclusions as to the content of the commitments

In conclusion the representative of the Community considers that it has become essential to put two definite questions to the members of the Group, since the Community attaches great importance to the present comparison of dairy policies and considers that the Kennedy Round will make it possible to

restore order to the international market in dairy products. On the replies given to these two questions will depend the EEC's attitude regarding the content of the offers which it will have to submit on 16 September. These two fundamental questions are the following:

- which countries are prepared to enter into commitments on the total effect of their support policy for dairy products whether these commitments take the form of the binding of a support level or whether they relate to each of the instruments which affect production of and trade in the product concerned?
- which countries are prepared to include such commitments in a General Dairy Products Arrangement?