

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Multilateral Trade Negotiations

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Sub-Group on Dairy Products

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As the principal producer, principal importer and principal world exporter of dairy products, the Community attaches very great importance to the negotiations in this sector which are due to begin now in this Sub-Group.

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The world market in dairy products is characterized by sudden surpluses and critical shortages, and of all the agricultural sectors the economy of the dairy products sector is among the most complex. It is both homogeneous, in that all its products are derived from a single basic product - milk, and highly diversified, in that its derived products are infinitely varied. Starting from the basic product, which practically never appears on the international market in that form, the producer makes his decisions not only in the light of the various market opportunities, but also in the light of the technical requirements of the products put on the market. There is thus a close interdependence between the various products in the dairy sector and a fairly broad scope for transfers of production and utilization from one sector to another, whence the necessity in our negotiations to cover all dairy products.

Moreover, milk production is a field where it is impossible to adapt supply to changes in demand immediately. For while it would be quite possible to adapt production to a fall in demand by slaughtering dairy cattle, that would involve a structural adaptation and it would then be impossible to increase production again quickly. But even with a given number of heads of cattle, fluctuations in production can be substantial and sometimes disastrous in their effects on the world market, which is relatively narrow in relation to total milk production. For example, a variation in milk production in the EEC of only 1 per cent - and a variation of that kind can result from just two or three weeks of good or bad weather -

means a variation of about 100,000 tons of powdered milk and some 35,000 tons of butter. The narrowness of the international dairy products market is further emphasized by the fact that most countries have a very high self-sufficiency ratio, due to the need to ensure fresh milk supplies. And it is probably this need which is responsible for the general adoption of support policies which, in the dairy sector, are more widespread and rigid than anywhere else.

Again, every dairy product has its own special characteristics. The world market in butter and other butter fats is a particularly narrow one because of the limited number of importing countries, at least as regards imports on strictly commercial terms. Moreover, it is subject to a number of constraints because it is heavily dependent on food habits and especially on the relationship between the price of butter and the price of other fats, vegetable or animal. Variations in consumption can therefore lead to substantial variations in the supply/demand ratio, whereas stocking possibilities are limited by the capacity and cost of the necessary installations and the restricted period for which such products can be preserved in good condition.

With regard to the market for powdered skimmed milk, its characteristic feature is the existence of a considerable potential demand, though a strong limiting factor is the price level. Where powdered skimmed milk is used as animal feed, this limit results from the competition of other animal feeding stuffs with a high protein content. Where it is used as a protein supplement to human food in the less-developed countries, it results from the limited financial resources of the purchasers. Under these conditions, and also because it is a less-processed product, the production of powdered milk is a less satisfactory means of valorization of milk than the production of cheese or finished products.

Unlike the two products mentioned above, the cheese market embraces a wide variety of products, even if some of them are fairly homogeneous. The feature of this market - and it is currently being accentuated in alarming fashion - is the existence of protective barriers in their most rigid form, that of quotas, together with health measures. At the same time, and as a consequence of this excessive protectionism, price competition is becoming a very acute problem for suppliers, while the importing countries are erecting additional barriers designed to impose strict limits on exports though exporters are already faced with difficult market conditions and are anxious to maintain consumption at as high a level as possible.

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As I said right at the beginning, the Community considers the negotiations in the dairy products sector very important, even if the complexity of the market, which I have just outlined, makes it difficult to seek and work out multilateral solutions. Multilateral solutions, to the working out of which the Community contributed, have already been applied in the case of certain dairy products: I am referring to the Gentlemen's Agreement concluded in OECD between exporting countries relating to powdered whole milk, and to the powdered skimmed milk and butter-oil/ghee arrangements concluded within GATT. Furthermore, in the cheese sector, during the last few years the Community has granted a number of benefits to its suppliers with the result that practically all (95 per cent) Community imports are now covered by arrangements - and in addition, as regards exports, it has made agreements with some of its customers in which it has shown a great deal of understanding for the domestic problems of the importing countries.

From the overall aspect therefore, while the Community, as an exporter, has consented to observe disciplines and, as an importer, has granted substantial advantages to all its suppliers, on the other hand some other major importers - which sometimes criticize the behaviour of the EEC - have so far refused, on the pretext of liberalism, to take part in such international disciplines as have already been set up, and in the cheese sector they are currently intensifying their protection which was already very effective.

Having regard to the foregoing, the Community would be entitled to ask its importing and exporting partners to make efforts identical to those it has been undertaking for many years past. The Community is well aware, however, that the existing international disciplines have not proved as satisfactory as they might have been, and that their product coverage is too limited. The Community is therefore ready to contribute again to a solution of the problems still remaining in international commodity trade.

For these reasons, the Community proposes that for the most homogeneous dairy products one or more international agreements should be negotiated, covering milk powders, butter and butter fats. For these products, a system of minimum and maximum prices, including other conditions of sale, would be brought into operation. At the minimum price level, exporting countries would undertake not to sell below that price to members and non-members of the agreement, and importing member countries would be required to purchase only from exporting member countries. The introduction of a maximum price system, which is a novelty in comparison with existing arrangements, would afford guaranteed supply conditions for importing countries parties to the agreement.

For the proper functioning of these agreements, machinery for permanent surveillance would have to be established so as to permit the necessary exchange of information for the proper knowledge of the market as required for the management of such agreements; this exchange of information should allow a better understanding of policies applied in this sector.

In the cheese sector, the Community believes that since a general agreement on prices does not seem feasible, because of the various conditions prevailing in different markets or the various products involved, nevertheless certain rules agreed between importers and exporters could be formulated at multilateral level to serve as a framework for the establishment of more specific elements governing trading conditions, so as to permit the regularization and expansion of trade.

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Far from discouraging the efforts to be undertaken in this Sub-Group, the current upswing in protectionism and the difficulties already apparent or which are likely to develop in the market for certain dairy products should on the contrary be a stimulus to the work for which we must now outline a programme. The Community, for its part, believes that its proposal, which is consistent with observance of existing dairy policies and with the provisions of paragraph 3(e) of the Tokyo Declaration in particular, can constitute a useful basis for examination and that its adoption, with the effective participation of the major importing and exporting countries, should make it possible to avoid the fierce competition in which exporters sometimes engage in certain markets, and the intensification of protectionist measures.