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Sub-Group on Dairy Products

STATEMENT BY THE REPRESENTATIVE OF CANADA ON 23 JUNE 1975

I would like to comment on the nature of the Canadian dairy industry and our view of the issues in dairy trade which these negotiations might encompass.

Dairying occupies an important rôle in Canadian farm production, both nationally and regionally, providing a livelihood for about one quarter of all farmers in Canada, and accounting annually for about a fifth of farm cash income.

While from a global point of view Canada does not rank as a major dairy producing nation, or account - with the possible exception of skim milk powder - for significant volumes of trade in dairy produce, exports and imports are important for the Canadian industry and market.

The Canadian industry has had to adjust to many of the factors and trends which have affected developments in other major dairy producing countries. There has been increased specialization in the industry at both the primary and processing levels, and a decline in the numbers of producers and processors.

Similar to the issues identified by the Canadian delegation in relation to other agricultural commodities, there are in our view three issues with respect to the dairy sector which should be considered in the negotiations, namely import restrictions, export aids, and market instability. We must also consider the interests of developing countries with respect to dairy production and trade.

In relation to import restrictions most countries apply non-tariff measures that restrict trade in dairy products. Such import barriers are a reflection of the fact that most developed countries have in place both domestic support and income stabilization policies for the dairy sector in part to ensure a sufficient supply of fluid milk and other perishable products. These programmes are often implemented by price support mechanisms which have required the use of border control mechanisms, to prevent the undermining of the domestic programme. They also require in our view the means to restrict domestic production or to manage supplies and we have programmes in place for this purpose.

The use of export aids, including export subsidies and concessional credit, presents in our view the second major issue for negotiations in the dairy sector. Again the use of these devices is a reflection of domestic income stabilization and price support policies.

Accordingly, in the Canadian view the problems of import restrictions and the use of export aids should be examined in the Sub-Group, taking into account progress in other sub-groups, in a search for actions that can be taken to improve trade in this sector.

The third, and perhaps most fundamental issue in the dairy sector is that of market instability. By market instability we mean unnecessarily extreme fluctuations in commercial markets. A principal feature of international dairy trade for many years has been its volatile and unstable character. We are now faced with the prospect of re-emerging surpluses, particularly of cheese and skim milk powder. The prospect for the future, notwithstanding the longer term growth in international demand for dairy products, remains under present conditions one of repeated patterns of market instability.

What are the causes of such instability? One source is represented by national dairy policies and their effects. More than any other agricultural sector, the dairy industry in all major importing and exporting countries is characterized by a high degree of Government intervention. There are a number of conditions and factors peculiar to the dairy sector which contribute to its instability. These include the cyclical nature of dairy production, reflecting the relatively long time lags between price changes and production response; the relatively extensive investments in capital, land and herds required for production; and the inter-relationship of dairy with other agricultural sectors such as grains, livestock, and vegetable oils.

In most countries the first concern is to ensure essential supplies of fluid milk, and perishable milk products, to consumers. Fluid milk and its related products, however, because of their perishable nature do not play a significant part in international trade. Because of these factors, when overproduction of fluid milk occurs the only real outlet for disposal is in the manufacturing of dairy products, particularly butter and milk powder.

Accordingly, we think that the issue of market instability will have to be faced in these negotiations, as an issue particularly inherent in the dairy sector itself. What has to be developed is a framework for improving the international co-ordination of national policies as they relate to the management of dairy production and trade. The aim should be to develop a basis for sharing the burden of any adjustments needed to prevent such instability from disrupting the orderly flow of international trade.

A further consideration is represented by the needs of the developing countries. Some of these needs will be met by local production and commercial purchases but it is worthwhile suggesting that needs beyond such supplies also represent a factor to be taken into account in these negotiations.

Turning to possible approaches to these issues, Canada is prepared to participate in an examination of means to reduce the problems in dairy trade. We are willing to participate in an examination of the issues of market access and export aids, and appropriate solutions, on either a market-by-market or product-by-product basis, or in terms of general solutions offered elsewhere in the negotiations.

In relation to market instability it has been suggested that a commodity agreement approach would be useful and we are prepared to examine this approach in all aspects. A useful starting point is provided by the existing arrangements in GATT for skim milk powder and milk fat and on agreements in other fora. Important technical problems do exist, however, bearing in mind the varying nature of the different dairy products traded.

As all governments to a greater or lesser degree intervene in the market to protect their producers or consumers against extreme situations the negotiations should provide for an improved basis for undertaking such action. There is a need to develop understandings or agreed rules as a basis for sharing the burdens of adjustment to reduce trade problems.

In summary, we are prepared to engage in a meaningful programme of work and negotiation in the dairy sector.