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ANALYSIS OF THE CHARACTERISTICS, OF THE STRUCTURE AND THE PROBLEMS OF WORLD TRADE IN DAIRY PRODUCTS

Statement by the Representative of Australia
on 13 October 1975

The Australian delegation in its statement at the first meeting of the Sub-Group on Dairy Products (MTN/DP/W/3 of 24 June 1975) commented upon the objectives of the Sub-Group and related them to the complexities and interrelationships within the dairy sector and the problems confronting world production and trade in dairy products. We said that the market had undergone a substantial change in the previous year, from a situation of shortage of supplies, high prices and low stocks to one of slackening demand, falling prices and high stock levels for some major products.

We also emphasized that because of the lessons learned from the past and because of the developing world market situation, an extensive programme of industry adjustment had been undertaken in Australia. The objectives of the new approach were to improve the efficiency of the industry and its marketing operations and to make it capable of standing on its own feet, drawing its returns from worthwhile, i.e. realistic, market opportunities. The purpose was in effect to make the industry essentially market-orientated.

The process of adjustment is, of course, still going on and indeed the Industries Assistance Commission is expected to report soon to the Government following a series of public hearings on what further measures, if any, are needed in the new circumstances. What has been achieved so far is the withdrawal of all Government production and export bounties, taxation concessions and investment allowances, fertilizer bounty, and the underwriting - for banking purposes - of returns for farmers for any season. Some other changes have also been made and there is, therefore, a need to revise significantly secretariat document W/9.

This action has been undertaken during a time when many other governments have been increasing the various support measures and forms of assistance accorded to their dairy industries. It has also been pursued beyond the recent period when sellers' market conditions prevailed, with the result that whereas many other industries, especially those of the EEC and until recently the United States have been running once again into serious problems of surplus, Australia is relatively well placed. This is not to discount the difficulties our industry faces in selling

its products. However, the clear message is that the Australian industry is now susceptible and responsive to signals coming clearly from the market place. The industries of some other countries, on the other hand, are susceptible and responsive to the signals they continue to receive from their governments, by way of increasing domestic price support arrangements, intervention buying, import barriers, export subsidies and a whole array of indirect forms of government assistance.

At the very time that Australia, one of the two most efficient dairy producing and exporting countries, recognizes the need to restructure and scale down its industry, less efficient industries such as those in the EEC and the United States which depend for their continued viability so heavily on Government intervention and insurmountable trade barriers, are generating new burdensome surpluses far beyond the capacity of markets to absorb. These surpluses do nothing to help Australia - indeed, they only add to our difficulties both in the course of the dairy adjustment programme and also in that at this very moment, Australian dairy farmers face the prospect of a reduction of possibly 25 per cent in the relatively modest pay rates they are receiving.

A study of production and exports of three major Australian dairy products reveals some interesting trends in the period 1969 to 1973. Butter production and exports both fell by some 40,000 tons; cheese production and exports rose by 20,000 tons and 2,000 tons respectively, with new high-throughput complexes recently installed, skimmed milk powder production rose 50,000 tons and exports increased by 40,000 tons, reflecting the shift in dependence of the industry from the butter-fat to the non-fat portion of milk. There have, of course, been subsequent changes. In the last two years (1973/74 and 1974/75) Australian butter exports were 38,000 tons and 19,000 tons respectively. The comparable figures for cheese are 38,000 tons and 34,000 tons and those for skimmed milk powder are 94,000 tons and 67,000 tons.

In the EEC(6) and the new member States according to figures or estimates we have, butter production increased by 100,000 tons and net exports rose sharply. Cheese production fell by about 150,000 tons but net exports increased. The most notable increase was in production of skimmed milk powder (up 300,000 tons) while exports increased by 100,000 tons. The United States reduced its output of butter by 82,000 tons and found it necessary to open a temporary emergency, additional import quota to meet a shortfall situation. The United States skimmed milk powder situation changed in parallel with that for butter, while cheese production expanded by more than 300,000 tons. The immediate problem which must be faced is that of how to dispose of world stocks of at least 1.5 million tons of skimmed milk powder. This represents about two years' production and the greater part of it is held by the EEC and the United States (we understand however, some interesting new developments are taking place in the United States market and we hope the United States Delegation will be able to comment).

The effects of the surplus are being felt throughout the world dairy economy and there is apprehension and uncertainty about the future. Clearly, there is a need for a new approach in the dairy sector. We agree that there is a rôle for stabilization but we think that much more than that is necessary. We believe we in Australia have learned some very clear lessons from the past and we would hope that our actions in the dairy sector could help to point the way out of the short term difficulty and towards an enduring, more satisfactory framework for world dairy production and trade.

We see a need for moderation in domestic support and other arrangements which stimulate uneconomic production even to the extent of chronic surpluses and which also seriously inhibit consumption. We feel there is a need for a number of major producers and importers to reflect more closely upon the costs of their domestic programmes, their consequences for their own citizens and for the dairy industries of countries such as Australia.

We believe that some reassessment will be inevitable on the part of these other producers, just as it has been necessary for Australia. We believe that the MTN and especially the work of this Sub-Group provide the opportunity to trigger a realistic reassessment, which would be fully consistent with the objectives spelled out in the Tokyo Declaration.

The Sub-Group this week will be analyzing the world dairy trade and its problems and the direct and indirect impact of trade barriers and trade distorting practices. So far as possible solutions are concerned we share the view that there is a joint responsibility among importers and exporters to develop proposals for dismantling trade barriers and trade distorting practices. For our part, we think there are various possibilities for international action and we would wish to revert to these later.

We would consider it essential for this Sub-Group to explore urgently what might be done to eliminate quantitative restrictions on imports of dairy products. We note that the United States has said that liberalization could be expected to bring about more stable market conditions and a more efficient allocation of resources in the world's agriculture. We agree but we must question the caveat placed by the United States on its willingness to explore the scope for liberalization provided, of course, that others do likewise.

We find it somewhat difficult to comprehend that condition, given that the United States Section 22 quotas are extremely restrictive, are maintained under the terms of a GATT waiver granted twenty years ago and have become progressively more restrictive and inequitable over the years. These restrictions are, of course, quite apart from the actions being pursued with new vigour by the United States in the application of their countervailing law. We think that law is outmoded and its impact inconsistent. We think the question of countervailing duties will need to be covered in these negotiations.

We would like to hear more in due course from the EEC in elaboration of the proposal it put forward at the first meeting of the Sub-Group. In particular, we would like to know of any refinements which the EEC now considers would be desirable and appropriate in order to achieve workable arrangements. We would above all, wish to hear proposals from the EEC designed to liberalize trade through the moderation or removal of frontier measures. We would also be interested to know whether the EEC sees any need and scope for altering its own open-ended support arrangements which we feel have helped to generate at various times a butter mountain and an even larger skimmed milk powder mountain.

We look to Japan to liberalize its import arrangements in such a way as to afford to exporters a more adequate and rewarding opportunity to develop the total Japanese market for dairy products. We would hope that Japan's consumers could exercise a greater influence than they presently have on the volume, range and prices of dairy products entering the Japanese market.

We are disappointed that Canada has seen it appropriate to increase prices to consumers and to limit imports of butter, cheese and preserved milk.

We consider that in the light of experience in the Meat Sub-Group, the situation of each importing and exporting country should be discussed in this Sub-Group.

As in the case of last week's meeting, we consider that any discussion of trade barriers in this Sub-Group is without prejudice to the position we have maintained in the Agriculture Group and elsewhere i.e. that it may be advantageous and sensible to discuss trade barriers on dairy products in this Sub-Group but that does not preclude their being discussed in some more general context in other functional Groups or Sub-Groups or in the Agriculture Group. Naturally, we want to relate the work of this Sub-Group back to other Groups and vice-versa so that a balanced and harmonious result can be achieved.

Later and at an appropriate time, the secretariat's information document on the international or regional co-operation devices already existing in GATT or other bodies would be helpful in a discussion of possible new, improved measures of international co-operation in dairy matters.

It seems to us that the dairy situation provides very clear lessons for anyone concerned with world trade. As we see it, the situation broadly is that high support prices adopted by the governments in potentially large markets such as the EEC, the United States and Japan and which are aimed at ensuring a reasonable level of farmer incomes have very costly consequences. They result in high domestic market prices which inhibit growth in world consumption of

dairy products. They also result in the frequent and, for the dairy sector, shifting accumulation of unmanageable surpluses. These surpluses and the internal policies make it necessary for countries to resort to the use of export subsidies and other devices. Efficient producers such as Australia feel the effects of all these measures in the market place which, except for a short period up till late 1974, has been characterized by chronic surpluses and market instability.

The internal market régimes which are of concern to us are sustained by non-tariff measures, restrictions on access, variable levies and threshold prices, quantitative restrictions and State-trading practices. We have always recognized the right of countries to protect their producers and we do not expect them to allow their industries to be disrupted. What we do ask for is a reasonable opportunity to compete on fair terms with other industries for a share of the available markets. We believe that this objective is fully consistent with and indeed is at the base of the Tokyo Declaration. We believe, therefore, that there is a responsibility on major trading nations especially those of the EEC, the United States and Japan to phase down and generally to moderate their trade barriers in order to afford to exporters such as Australia improved, reasonable and fair opportunities of access to their markets.

In summary, we see the present framework for trade in dairy products as one which has resulted in a situation which can no longer be afforded by the international community. We do not see how major world traders can continue to insulate their domestic markets for dairy products and still operate consistently with their international responsibilities. We therefore consider that one of the urgent tasks for this Sub-Group should be to devise a framework for liberalizing world trade in basic dairy products, for stabilizing the trade at a higher level of trade, for the benefit not only of efficient producers and exporters but also in the interests of consumers in both importing and exporting countries.