

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

DPC/W/15/Add.5

16 October 1981

Special Distribution

International Dairy Arrangement

INTERNATIONAL DAIRY PRODUCTS COUNCIL

Support Prices or Other Prices Applied to Milk and the Various Dairy Products Covered by the Arrangement

Addendum

AUSTRALIA

Australia does not have a system of support prices for milk or dairy products similar to those of the EEC or the United States. However, since 1975-1976 the Australian Government's underwriting arrangements have provided a guaranteed minimum (floor) equalized price designed to enable efficient factories to pay producers a given minimum return. In the first year (1975-1976) underwriting applied only to skim milk powder but in subsequent years, the Government extended the scheme to cover all dairy products prescribed under the domestic marketing arrangements.

The product underwriting values were based on manufacturing costs determined by survey, which in normal circumstances have allowed efficient manufacturers to pay their suppliers as follows:

<u>Production period</u>	<u>Per kg. butterfat at farm gate</u>
July-Dec. 1976	\$A 1.32
Jan.-June 1977	\$A 1.43
July-Dec. 1977	\$A 1.43
Jan.-June 1978	\$A 1.65
July 1978-June 1979	\$A 1.65
July 1979-June 1980	\$A 1.75
July 1980-June 1981	\$A 2.10

New underwriting arrangements have been introduced from 1 July 1981 details of which are given in Questionnaire 5. The new scheme ties underwriting to market returns for each of the prescribed products thereby removing an anomaly of the previous underwriting arrangements which provided a common farm gate return for butterfat in all prescribed products irrespective of their relative market returns.

Underwriting values for prescribed dairy products are shown in the following table:

Dairy Industry Underwriting Values

Year	Product				
	Butter	Skim milk powder	Casein	Whole milk powder	Cheese (leviable cheese)
		\$A per tonne			
1975-76	-	300	-	-	-
July-December 1976	1,100	300	795	-	750
Jan.-June 1977	1,150	330	875	-	820
July-Dec. 1977	1,160	360	935	-	860
Jan.-June 1978	1,240	420	1,090	715	955
1978-79	1,240	441	1,096	735	974
1979-80	1,240	534	1,383	818	1,075
1980-81	1,320	705	1,843	961	1,266
1981-82 ^{1/}	1,655	835	2,085	1,110	1,490

^{1/} Values apply to gross equalized pool returns and do not compare directly with earlier years.

Before 1975-1976, the Australian dairy industry was assisted by bounties on the production of butter and cheese and on exports of processed milk products. The bounties were phased out over a period of three years and terminated on 30 June 1975. Details of government financial assistance to the Australian dairy industry from 1969-1970 to 1975-1976 and the cost of underwriting arrangements for 1976-1977 to 1980-1981 are shown in the following tables:

Australian Government Financial Assistance to
Dairy Industry 1969-70 to 1975-76 Seasons

	Butter and cheese bounty \$A million	Processed milk products bounty \$A million	Devaluation compensation \$A million ^{3/}
1969-70	27.0	0.80	20.53
1970-71	42.9 ^{1/}	4.18	0.96
1971-72	40.0 ^{2/}	0.80	-
1972-73	27.0	0.80	-
1973-74	18.0	0.54	-
1974-75	9.0	0.30	-
1975-76	-	-	-

^{1/} Includes special grant of \$A 15.9 million

^{2/} Includes special grant of \$A 13 million

^{3/} For unavoidable losses to the industry arising from the devaluation of sterling in 1967.

Note: Underwriting by Commonwealth Government over the periods shown above did not require any payment of subsidy additional to the amounts shown.

Costs of Underwriting Dairy Products - \$A million
1976-77 - 1980-81

Production period and product	1977-78	1978-79	1979-80	1980-81	Total
<u>1976-77</u>					
Butter	4.5	0.63	-	-	5.13
SMP	0.45	-	-	-	0.45
Casein	0.25	0.1	-	-	0.35
<u>1977-78</u>					
Butter	-	11.05	0.46	-	11.51
Casein	-	0.59	0.13	-	0.72
WMP	-	-	0.39	-	0.4
<u>1978-79</u>					
Butter	-	-	12.3	-	12.3
WMP	-	-	2.18	-	2.18
<u>1979-80</u>					
WMP	-	-	2.2	1.6	3.8
<u>1980-81</u>					
-	-	-	-	-	-
<u>1981-82</u>					
- (Est.)	-	-	-	-	-
	5.25	12.39	17.66	1.6	36.9

Note: Rounding has caused totals to differ slightly from aggregation of annual payments in some cases.

Under the domestic marketing arrangements, a stabilization levy mechanism protects a stable domestic pricing structure for the prescribed manufactured dairy products. An important consideration which is taken into account in the determination of the level of stabilization levies is the underlying long-term trends in prices at which dairy products generally enter world trade.

The marketing of fluid milk in Australia is primarily a responsibility of State milk boards or authorities established by individual State governments. Pricing arrangements vary from State to State but in general the arrangements involve setting prices to producers as well as wholesale and retail prices.

Prices for market milk are not target prices. Essentially the prices are arbitrated prices determined in response to considerations of stability of supply and need to provide sufficient incentive in the market to encourage year round supplies of milk.

The following table compares estimates of the average unit values at the farm gate of whole milk used for manufacturing milk and market milk from 1975-1976 on. The margin of difference between the two series reflects in the early seventies depressed prices resulting from the disposal of surplus dairy products on the world market. In the main the difference now represents the higher costs associated with the all year round supply of market milk.

Average Unit Values¹ for Manufacturing and Market Milk
(\$A per litre)

	Manufacturing milk	Market milk	Total milk
1975/76	0.053	0.161	0.081
1976/77	0.067	0.166	0.093
1977/78	0.073	0.172	0.099
1978/79	0.085	0.182	0.111
1979/80	0.097	0.200	0.126
1980/81	0.134	0.234	0.164
1981/82 (Est.)	0.154	0.272	0.191

¹Valued at farm gate

Note: Comparable figures are not available prior to 1975/76.

Source: Bureau of Agricultural Economies.