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Committee of the Protocol Regarding Milk Fat

Committee of the Protocol Regarding Certain Cheeses

COMMUNICATION FROM THE DELEGATION OF THE UNITED STATES

In the December 1982 sessions of the Protocol Committees, the representative of the United States forwarded to the secretariat the following communication for circulation.

U.S. Department of Agriculture
Office of the Secretary

Remarks prepared for delivery by Secretary of Agriculture John R. Block
before the National Milk Producers Federation's 66th Annual Meeting in
Detroit, Michigan on 30 November 1982

Just about nine months ago to the day - 3 March in Seattle - I presented the Western States Dairy Conference with what I hoped would be a strong challenge for the entire dairy industry. I'd like to repeat just two sentences from those remarks:

"I'm certain that you, as responsible dairy producers, share my vision of the day when we can put all of our problems behind us. But you also realize that we've got a lot of work to do before that day comes and ... quite frankly ... we aren't even headed in the right direction yet!"

That was nine months ago! The dairy surplus situation was placed on the front burner, and all of us - in government and within the industry - intensified our efforts toward solving what was becoming a very formidable problem.

We saw the Kansas City dairy symposium, during which dairy leaders across the nation joined together to assess the situation and begin the task of finding a solution. While everyone agreed there was indeed a problem ... that it was a growing problem ... the industry itself was far from unanimous agreement when it came to defining the solution.

We saw an added thrust in our efforts to distribute dairy products to the needy, both domestically and overseas. We saw the Administration's plan go to Congress ... the National Milk Producers had a plan ... and Congress came up with its own.

Now - nine months later - we find that the treadmill has been moving faster than we have. And we still don't know whether we're heading in the right direction. I suspect that most would say - "Probably not!"

Without exception, I'm certain there's no person in this room who can say many kind words about the 50 cent assessment. That includes the Secretary of Agriculture!

This is a good time to set one matter straight once and for all. From the comment I've heard and what I've read - Jack Block seems to be catching a lot of flack about this assessment. Now I don't mind a little flack, as long as it's for something I've initiated. That's to be expected from time to time. But I'm not going to pretend it doesn't make me angry to have the contempt for this plan directed at me.

This is a Congressional plan and none of us like it. And it's sad that after all of the discussion about the dairy programme, this is the only tool that Congress can give us. It should make all of us wonder who they were listening to.

I'm fully aware that Congress isn't ordering me to administer the assessment - though, they might as well have. They gave me the discretion, but at the same time they took credit for and wrote the savings into the Budget Reconciliation Bill. And as much as I disagree with this approach, it would be irresponsible for me to not administer it. It would be irresponsible from a budget standpoint, and from a public relations standpoint for the industry. The eyes of the taxpayers are focused on your industry. Remember, we're spending \$2 billion a year - and there's no end in sight!

Let's face it - the longer we take to solve the problem, the harder it will be to sell the entire dairy programme to the general public. Mark Twain once observed that you should never tell people your problems, because 80 per cent of them won't care, anyway, and the other 20 per cent will think you deserve it!

If I don't administer a plan that is estimated to save the taxpayers up to \$600 million during the rest of this fiscal year, then I can guarantee that a lot more than 20 per cent will start believing we deserve anything that happens. And their Congressmen will be listening to them ... you can count on that!

We're all backed into a corner by this legislation. If this assessment doesn't work - if it fails to cut production - then we must be ready to present Congress with a plan that will work. To do this, we have to get together!

You're all aware of what the Administration plan was all about. We proposed to give the Secretary of Agriculture authority to set the support at whatever level was needed to start showing results. You in the industry didn't buy it ... Congress didn't buy it either. Instead, Congress emerged with its own plan. It had some kinship to the industry's proposal - but evidently not enough resemblance for you to buy it, at least not now! Frankly, I think the Administration plan is looking better all the time.

I hear various stories that the industry is contemplating presenting new dairy legislation to the Congress. To help set the stage for this, you should take a close look at some of the mistaken arguments - the myths - that I keep hearing about the dairy situation.

Myth Number 1: A decrease in the support price will lead to more milk production.

This myth is based on the fact that a minimum level of cash flow is needed to cover fixed expenses. That is not the way it works. If it did - we could have a system under which if we needed more milk, we would just lower the price. Sure, a few may increase, but the way to reduce the flow of milk is to change what caused it to flow in the first place. We have to lower the support price.

If a decrease in the support price leads to more production, then I suppose the argument would be that an increase in the level would lead to less production. I can't imagine that many believe this is so.

Each producer will have to take the action that will benefit him most. But over time, those actions have to generate a profit. If a producer isn't making money when he expands production, he will have to cut back - or eventually go broke.

Myth Number 2: Lower price supports affect small dairymen more than the large!

Actually, the effect of reduced dairy price supports depends more on the producer's financial situation than on the size of his operation. If he figured that inflation a high supports would cover high interest on a large debt - well, he is in trouble.

The truth about small dairy operations is that their numbers have been steadily declining - at least since World War II - regardless of whether the price support rate was high or low. Even during the late '70s, when we had a big increase in price support small operations of less than 30 cows declined by nearly 50,000, or about 20 per cent.

Myth Number 3: Imports of dairy products have caused the problem!

The fact is that cheese imports, particularly "specialty-type" cheeses, may have helped by whetting the consumer's taste for our own product. Actually, cheese imports have declined slightly in 1980 and '81, when they averaged 1.9 billion pounds milk equivalent. In 1978 and '79, they averaged two billion pounds.

Another phantom culprit is casein. Although casein may replace some domestic skim milk solids, imports controls would make little difference in government purchases of non-fat dry milk. Other lower-priced substitutes for milk solids, such as soy-based proteins, would likely fill the gap. While we are concerned about casein that is imported, no one should believe that to reduce casein imports will solve the problem.

Think about this - our total dairy imports amount to only about 2.4 billion pounds milk equivalent, compared with our annual milk output of over 137 billion pounds!

Myth Number 4: Only those regions which produce surplus dairy products and sell to the government are the problem, and they should bear the adjustment cost!

Actually, since government supports the price of all milk, it's only logical that the largest purchases are made in the areas of highest production and manufacturing.

Milk and dairy products move in a single national market, unlike the 1930's and '40s when markets were insulated. There is absolutely no justification for singling out one region to blame. Just because some producers are located near large consumer centres doesn't mean they do not contribute to the problem.

Myth Number 5: We can solve this problem by selling in overseas markets, or we could give more surplus products away domestically!

Let's be serious about this. As of 12 November, CCC had over 400 million pounds of butter, almost 800 million pounds of cheese and more than 1.2 billion pounds of non-fat dry milk. These stocks represent about 20 per cent of annual world butter trade ... nearly 50 per cent of cheese trade ... and over 60 per cent of non-fat dry milk trade. These sales could cause major disruptions in the world market.

There's been talk, of course, about putting some of these stocks on the world market if the European Community continues to capture U.S. agriculture's markets with export subsidies. And we may do this!

But even if this were to happen, it would be wrong to view it as a single solution to our problem. I have no intention of institutionalizing our dairy subsidies for sale on the world market. We might as well not even think about that!

On the domestic front, we have made enormous amounts of dairy products available to schools and institutions, and we have donated dairy products to needy persons. So far we have delivered more than 135 million of the 195 million pounds of cheese ordered by states, and 8.2 million of the 42 million pounds of butter ordered.

Today, I want to announce that we are extending our distribution to the needy until December 1983. We will be releasing another 280 million pounds of cheese and 75 million pounds of butter. What all this means is

that so far, the government has earmarked nearly \$1 billion worth of products for distribution to the needy. We are also working to implement a distribution programme to the needy abroad.

Do you want to know something? It's not enough! Not enough to come near solving our problem. This next year we expect to purchase 14 billion pounds of milk equivalent - about twice as much as we will likely donate in all of our programmes.

And expanding the give-away to people other than the needy is also not the answer. Over-the-counter sales would decrease, the government would have to buy more, and we'd have nothing more than a stock rotation.

Myth Number 6: To limit supplies, the government could pay producers to cull cows.

It's probably true that it would be cheaper, in the short run, for us to purchase a cow than to purchase a year's output from that cow. But, it would be largely ineffective and disastrous in the long run.

In 1982 and '83, we estimate that about four million cows will be culled anyway, and about one million more would have to be culled to bring supply into line. How could purchase programme be targeted at those one million cows - without subsidizing those that would be culled anyway? Besides - producers would eventually replace them, so, the programme would have no long-term effect. We have many replacement heifers on hand, and these heifers would be better producers than the cows that you culled.

Myth Number 7: Instituting a base plan and incentive programme is a simple solution.

Let's look at that. Given the large production increases of the past three years, there is really no equitable way to establish individual bases. Establishing bases on current levels would penalize producers who have not increased production.

If bases were established on some previous production period, those that have recently expanded would be penalized. There would be problems with new producers coming in, producers leaving, and issues relating to land tenure, inheritance and taxes.

Such a plan has other problems:

- Arbitrary reduction could force some to operate below the most efficient levels.
- Regional production patterns would be frozen in place.
- Production bases would take on a value of their own, equivalent to a cash gift to existing producers.
- And, finally, it would be difficult to remove such a plan, once in place.

Setting all of these myths aside, I'm convinced that the solution is out there, and sooner or later we'll have to grab at it. This assessment could very possibly be only the beginning of what we might expect from Congress if we fail to approach them with a clear definition of what we want. It's not going to be easy for a while ... we all know that ... but, it's not an easy situation. We must face the fact that there is no easy way.

Now, let me expand on a point I made earlier. As I said, some people are calling this assessment my plan. Some are even saying that my Department and I are against the dairy industry. But, the fact is that for the last two years we have probably spent more man-hours on the dairy industry than any other commodity. We have worked to bring about changes that would save the programme ... changes that would be fair to the producers.

We went to Congress with a programme, but the industry was not behind us. And without the industry support, we didn't get the support from Congress. Instead, we got this assessment that I am forced to implement beginning tomorrow.

1 December is already upon us. There is nothing we can do about it! But let me tell you something - if you don't like what is coming 1 April, then we have to start working together now because time is of the essence. 1 April is really just around the corner when you consider the tight time frame in which Congress works.

My door has been and will remain open! My staff is willing to work with you! We need a spirit of co-operation if we're going to be able to tackle this, the most serious problem that the industry has ever faced. I hope that we all can rise to the challenge.