

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## SUBSIDIES

### Notifications of Contracting Parties

#### Addendum

#### NEW ZEALAND

#### Notification of 16 December 1960

By letter dated 16 December 1960 the Government of New Zealand has transmitted to the secretariat in reply to the questionnaire contained in document L/1315, a notification on the subsidies which are at present paid in New Zealand.

#### 1. WHEAT AND GRAIN PRODUCTS

##### I. Nature and extent of subsidy

A. Background authority - The Board of Trade (Wheat and Flour) Regulations 1935-36 issued under the authority of the Board of Trade Act 1919, established a State monopoly over the importing and marketing of wheat. The payment of subsidies to keep down the consumer price is derived from the Economic Stabilisation Act 1948.

B. Incidence - The subsidy is paid direct by Government to the Wheat Committee which purchases all requirements of wheat; both locally grown and imported, and sells at subsidized prices to millers. The Committee then purchases flour from the millers at a price equivalent to cost plus profit and sells the flour, again at subsidized prices, to bakers and other consumers.

The nominal subsidy on New Zealand milling wheat for the 1959-60 harvest was 9/10.25d per bushel, calculated as follows:

Growers' price	-	13s.6d.
Commission	-	3d.
F.o.b. charges	-	<u>10.75d.</u>
		14s.7.75d.
Price to millers (f.o.b. basis)	-	4s.9.5d.
Subsidy on sale of wheat to millers	-	9s.10.25d.

All wheat, both locally grown and imported, is sold to millers at the subsidized price of 4s.9.5d. per bushel. In the year 1959-60 New Zealand imported about just under 50 per cent of its wheat. The average purchase price of imported wheat in 1959-60 was 13s.4.8d. per bushel c.i.f.e. and the subsidy per bushel was 8s.3.8d.

C. Amount of subsidy - The total cost to the Government of the consumer subsidy operations detailed in (B) above was £4,500,000 for the year ended 31 March 1960 and for 1960-61 the estimated cost is the same.

D. Estimated amount per unit - Consumer subsidies involved in the sale of wheat to millers are detailed in section (B) above. The subsidy element in the price at which flour is sold to bakers and other consumers varies slightly according to use and has been calculated as follows:

(i)	Flour for bread	-	2.7d. per lb. or 3s.8d. per 2 lb. loaf.
(ii)	" " household use	-	2.4d. per lb.
(iii)	" " pastry-cooks	-	2.1d. per lb.

The full subsidy is recovered on all wheat and flour products exported.

## 2. BUTTER

### I. Nature and extent of subsidy

A. Background and authority - The subsidy is paid only on butter sold in the domestic market, its purpose being to stabilize at a low level the price paid by the domestic consumer. Authority for the payment of the subsidy is derived from the Economic Stabilisation Act 1948. The price which the Dairy Products Marketing Commission pays dairy companies for butter is based on principles incorporated in the 1956 Dairy Products Marketing Commission Amendment Act.

B. Incidence - Butter for local consumption is sold by dairy companies to wholesalers at a price equivalent to the domestic retail price which is fixed at 2s.- per pound. The dairy companies recover from the Dairy Commission the difference between the domestic wholesale price and the basic price equivalent which is paid to all dairy farmers supplying factories. The Commission in turn recovers the amount involved from Government as a subsidy.

C. Amount of subsidy - The consumer subsidy for the year ended 31 March 1960 amounted to £3,600,703 and is estimated to amount to £4,940,000 for 1960-61.

D. Estimated amount per unit - For 1959-60 the consumer subsidy was approximately 8d. per lb. of butter. For 1960-61 it will be about 1s.1d. per lb., the increase being due to the higher prices received for dairy produce for the season ended 31 July 1960.

### 3. MILK

#### I. Nature and extent of subsidy

A. Background and authority - As with butter, authority for the payment of the consumer subsidy is derived from the Economic Stabilisation Act 1948.

B. Incidence - Milk for town supply is purchased by local co-operative associations from producers in the area who contract to supply it and who satisfy the standards laid down as to hygiene, etc., and is sold to the consumer at a price fixed by the Government. The price paid to the producer is also fixed by the Government and is related to the guaranteed price, being linked to the return received by suppliers of cheese factories. The difference between production cost and the consumer price is recovered by the associations from the Government through the New Zealand Milk Board.

C. Amount of subsidy - For the year ended 31 March 1960 expenditure under this heading was £3,706,000; estimated expenditure for 1960-61 is £4,630,000.

D. Estimated amount per unit - For the year ended 31 August 1960 the amount of consumer subsidy was 1s.5d. per gallon.

### 4. EGGS

#### I. Nature and extent of subsidy

A. Background and authority - The granting of financial aid by the Government to ensure a reasonable flow of eggs to consumers in the larger centres of population is provided for in the Egg Marketing Authority Regulations issued pursuant to the Primary Products Marketing Act 1953.

B. Incidence - Producers receive a subsidy direct from the Government of 4d. per dozen for eggs sold through the authorized egg floors, which receive just over 40 per cent of total egg production, the remainder being sold by producers to consumers and retailers operating outside the recognized marketing areas.

C. Amount of subsidy - The subsidy on eggs sold through egg floors amounted to £354,100 in 1959-60 and it is estimated that it will amount to £385,000 for 1960-61.

## 5. CARRIAGE OF LIME

Although this subsidy was reported on last year, it is now considered that it does not really come within the scope of the questionnaire. Lime does not enter into international trade and, in any case, when the full system was operating, 85 per cent of the cost was borne by the farmers themselves through their produce reserve accounts. The recently amended scheme under which the Government pays a subsidy on lime used in new land development is estimated to cost £35,000 for the year ended March 1961 and thus can have only a limited effect on primary production.

## 6. CITRUS FRUIT

The subsidy on the rail transport of grapefruit was abolished as from mid-1959.

### II. Effect of subsidy

#### A. Quantitative trade effects

##### 1. Wheat

In view of the well-known inelasticity in the demand for wheat and flour products and the probability that reasonable price changes would not have any appreciable effect on consumption, it is unlikely that the subsidy has any effect on international trade at all. No distinction is made between locally grown and imported wheat in applying the subsidy, the large expansion of local production over the past two seasons being due to a growers' price more in line with the world price level and particularly to the availability of higher yielding varieties. There is, of course, a world-wide tendency in the more developed countries for the per capita consumption of cereals to decline in favour of more expensive foods, a fact given emphasis in the FAO publication "The State of Food and Agriculture, 1959".

##### 2. Butter

The effect of the consumer subsidy on butter is to stimulate local consumption and to that extent it reduces the amount of butter than is put on world markets. It is obviously impossible to estimate just what the local consumption of butter would be in the absence of subsidies, but in the light of overseas studies of the elasticity of consumption in the face of price changes, there would undoubtedly be some drop and a corresponding increase in the amount exported. Per capita consumption of butter for the period 1934-38 was 41.2 lbs. compared with 45.5 lbs. per capita in 1959-60.

##### 3. Milk

This subsidy has the same effect as the butter subsidy, stimulating local consumption. For the period 1934-38 annual per capita consumption of milk was 220 pints; for 1958-59 it was 337 pints. This large

increase has been due partly to the lower relative price, but other factors have been the wider realization of milk's nutritive value and the fact that the distribution of milk is on a much more efficient basis than before the war. The milk-in-schools scheme introduced in 1937 has also had an effect.

As both the butter and milk subsidies have the effect of reducing the quantities of dairy products coming on to the international market, they must have the effect of assisting in the maintenance of a greater degree of price stability in an extremely sensitive market. The New Zealand standpoint in discussions on the outlook for dairy products has been that those countries which subsidize exports in one form or another should endeavour to stimulate home consumption.

#### 4. Eggs

The subsidy on eggs sold through authorized egg floors is designed primarily to attract eggs to the larger centres. As such it helps to keep the price paid by the consumer more stable. For this reason it stimulates consumption to some extent as urban consumers might have to pay more for eggs in its absence. As New Zealand's exports of egg pulp are small and sporadic, the subsidy has no discernible effect on overseas trade.

### STATISTICAL INFORMATION

#### Wheat (000 bushels)

Period	Production	Consumption	Imports*	Exports*
				<u>Bushels</u>
1938-39	5,564	8,717	3,445	46
1957-58	3,727	13,451	10,541	178
1958-59	6,039	13,036	9,992	195
1959-60	8,462	14,030	8,087	120

\*All figures relate to the calendar year ended within the production year stated.

Flour  
(short tons)

Period	Production	Consumption	Imports	Exports
			<u>Centls.</u>	<u>Centls.</u>
1938-39	137,083	143,500	838	187
1957-58	190,145	199,860	4,119	1,121
1958-59	196,953	204,754	1,337	1,441
1959-60	204,913	211,066	76	747

Butter  
(000 tons)

Period	Production	Consumption	Imports	Exports*
1938-39	150.3	30.8	-	130.7
1957-58	218.2	42.8	-	145.1
1958-59	221.6	44.7	-	175.4
1959-60	211.1	46.5	-	193.0

Milk for Human Consumption  
(m. gallons)

Period	Production	Consumption	Imports	Exports
1938-39	77.0	220.0**	-	-
1957-58	106.2	335.3**	-	-
1958-59	108.6	337.1**	-	-
1959-60	108.3	N/A	-	-

\*All figures relate to the calendar year ended within the production year stated.

\*\*Per head figures in pints.

