

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

DPC/P/23

DPC/F/23

DPC/C/23

5 January 1984

International Dairy Arrangement

Committee of the Protocol Regarding Certain Milk Powders
Committee of the Protocol Regarding Milk Fat
Committee of the Protocol Regarding Certain Cheeses

JOINT MEETING OF THE COMMITTEES ON A SURVEY OF GOVERNMENT MEASURES TO EXPAND DOMESTIC CONSUMPTION OF DAIRY PRODUCTS

Report

Introduction

1. The Committee of the Protocol Regarding Certain Milk Powders, the Committee of the Protocol Regarding Milk Fat and the Committee of the Protocol Regarding Certain Cheeses held a joint meeting on 28 September 1983. The meeting was devoted to a survey of government measures to expand domestic consumption of dairy products, on the basis of information furnished by delegations interested in this work.

2. The Committees had before them document DPC/P/W/11, DPC/F/W/10, DPC/C/W/10 containing the list of information requested and Addenda 1 to 10 to that document containing information communicated by Uruguay (Add.1), Australia (Add.2), New Zealand (Add.3), South Africa (Add.4), the European Economic Community (Add.5), Japan (Add.6), Switzerland (Add.7), the United States (Add.8), Finland (Add.9) and Canada (Add.10). Information was also communicated by Sweden and distributed subsequently as document DPC/P/W/11/Add.11, DPC/F/W/10/Add.11, DPC/C/W/10/Add.11.

3. The Committees first examined the information furnished by delegations, then reviewed government measures to expand consumption of dairy products.

Examination of information furnished

4. The representative of Sweden pointed out that in her country, government measures to expand domestic consumption were dominated by consumer subsidies on milk and cheese which had been introduced in 1973. These consumer subsidies should be regarded as a part of the general income policy rather than a part of the agricultural policy as such. The aim of these subsidies was to protect vulnerable groups from an economic point of view. Subsidies on certain products had been cut back in 1981/82 because of budgetary restrictions, but since January 1983 the consumer subsidies covering total marketed quantities of milk and cheese had been increased again. Since January 1983 the price of milk had been reduced by 38 per cent because of the subsidy, and that of cheese by 9 per cent. As regards

the result of the consumer subsidy scheme, annual per capita consumption of milk and cheese was estimated to have increased by 10 litres and 1 kg. respectively. In addition, consumption of butter and cheese was encouraged by means of price reductions. Net expenditure under government programmes to support or subsidize consumption of milk products had totalled some SEK 2,500 million in 1982/83.

observer for Canada pointed out that the major element in terms of government measures to encourage consumption was the direct subsidy paid to dairy-industry producers. This subsidy has the purpose, in particular, of reducing the consumer prices of all dairy products. A school milk programme existed and was in operation in only one province - Quebec. Lastly, under a subsidization scheme for the animal feed sector, manufacturers of animal feeds paid only part of the price of skimmed milk powder, the subsidy consisting of the remaining part of the price. In reply to a remark to the effect that the quantities of skimmed milk powder used for animal feed were rather small in relation to stocks, the Canadian representative said that the scheme would be maintained but that the volumes which would be placed into the animal feed sector would be the result of the demand of the sector and the availability of lower quality second-grade skimmed milk powder from the dairy processors.

6. The representative of Finland pointed out that the most important measure taken to expand domestic consumption was a deficiency payment for milk, called price supplement, used to dampen inflationary pressures on the economy and to subsidize consumer prices. The price supplement, paid by the State directly to milk producers, had involved expenditure of FIM 632 million in 1982. Net expenditure under government programmes to support or subsidize consumption had totalled nearly FIM 1,000 million in 1982 and included, in addition to the price supplement for milk, a school lunch programme and sales to the military, both of these schemes covering milk and milk products. Consumption of milk and milk products was very high in Finland. Annual per capita consumption of butter and cheese was at a level around 12 kg. and 8 kg. respectively. It therefore seemed difficult at the moment to envisage any new measures to boost domestic consumption.

7. The representative of New Zealand agreed that butter consumption was indeed very high in Finland, where such appreciable results had been achieved in particular because of government measures such as the school lunch programme, sales to the military, price subsidies for butter and butter sales to industry.

8. The representative of the United States underlined that the proportion of total consumption supported by government schemes, as well as total government payments for those schemes, had increased considerably over the past two fiscal years. The trend was expected to continue in fiscal year 1984. The increase would probably be quite substantial in respect of cheese; larger quantities of butter and skimmed milk powder would be

disposed of in the framework of government schemes. With respect to the trend in annual per capita consumption of certain dairy products, butter consumption seems to have levelled off at around 4.5 lb. (approximately 2.04 kg.), that of cheese had increased to 20 lb. (approximately 9.07 kg.) while consumption of skimmed milk powder had dropped back to 2.7 lb. (approximately 1.22 kg.) in 1982. For 1983 as a whole, per capita consumption was forecast to show an increase in respect of cheese and virtually no change in the case of butter and skimmed milk powder.

9. In reply to a question regarding utilization of skimmed milk powder for animal feed, the United States representative said that the relevant volume of skimmed milk powder had increased slightly in fiscal year 1982 to around 24,000 tons, and a further increment was hoped for in fiscal year 1983.

10. The representative of New Zealand noted that the volume of skimmed milk powder used for animal feed in the United States was small in comparison to the situation in certain other countries. In the United States, skimmed milk powder used for that purpose was sold at around US\$1,000 per ton, i.e. a fairly high price which, in the view of his delegation, inhibited any increase in disposals in that area. No doubt cereals and vegetable proteins were cheaper. The question arose, therefore, at the level of the price gap between alternative protein feeds. Taking into account the fact that the dairy sector was covered by government support measures in the United States, that gap could be offset by more substantial aid to skimmed milk powder for animal feed in order to lower its price and thus promote increased disposal in that area.

11. The representative of the United States said that the Commodity Credit Corporation had hesitated to lower the price of skimmed milk powder for animal feed with a view to making it more competitive with certain vegetable proteins because certain problems were involved. It was hoped, nevertheless, that sales of skimmed milk powder by the Commodity Credit Corporation for animal feed would double in the next year or two to around 50,000 tons, a volume that was still not very high.

12. The representative of New Zealand noted that in the United States, welfare and social programmes represented the largest sector of government assistance made, in order to expand domestic consumption of dairy products. Attachment I to the United States document gave information on the quantities of dairy products distributed under food and nutrition programmes. A breakdown of government payments for each of the products mentioned would nevertheless be useful.

13. In reply, the representative of the United States recalled that it had been agreed that if participating governments had difficulty in replying to certain questions in the context of the survey, a best-endeavour effort would be appreciated. His delegation had made every effort to provide the information contained in the documents submitted, but was not in a position

to undertake to furnish additional information. It would nevertheless endeavour to obtain the information requested, to the fullest extent possible.

14. The representative of Switzerland said that it would be difficult to sell dairy products in Switzerland at prices covering production costs and the base price of milk, the latter price being fairly high. A combination of various schemes had been established to support the base price of milk: there were government subsidies, and in addition import measures that were differentiated according to the products concerned. Losses resulting from the differences between the production cost and the sale price were covered by government subsidies, by producer participation and by the proceeds from import charges on dairy products. In addition, there were certain special programmes designed to encourage disposal of dairy products such as temporary reduced-price sales of butter, cheese and other dairy products. With respect to liquid skimmed milk, price reductions were granted regularly on fresh skimmed milk used on the farm for swine feed. In addition, charges which contributed to reduce the gap between the price of butter and of other fats were applied on imports of edible fats and oils, thereby indirectly encouraging butter consumption.

15. The representative of Japan said that in his country two schemes were in operation in order to increase milk consumption. School lunch programmes were designed to stabilize the situation of dairy farmers by increasing milk consumption, and to improve the physical condition of children. The subsidized quantities and amount of subsidies for fiscal year 1982 had totalled 654,000 tons of milk and ¥ 15,601 million respectively. In the context of the second programme, certain organizations and groups received milk at special low prices because of subsidization. In fiscal year 1982, the subsidized quantities had totalled 36,500 tons of milk, and the total amount of subsidies had been ¥ 603 million. In fiscal year 1981, 16 per cent of total liquid milk consumption had been supported by those two programmes.

16. The representative of the EEC commented on the data in Table I of the document reproducing information furnished by his delegation. With respect to welfare programmes, Community aid for school milk had been increased as from January 1983 and represented 125 per cent of the target price for milk. Aid to butter purchases by certain non-profit-making groups had been increased since the beginning of the year to ECU 195/100 kg., representing more than half of the price of butter. A direct subsidy on butter consumption was granted in four member States, most of which were partly financing the amounts needed for that reduction, Community participation being limited to ECU 51/100 kg. Among additional outlets, the most important consisted of reduced-price sales to manufacturers of bakery products and ice-cream. As a result of that aid, butter utilization had increased very appreciably in those industries. Sales to bakery industries could reach 120,000 tons in 1983, as against 106,000 tons in 1982, and further expansion of the scheme was expected. With respect to

reduced-price sales of butter to the military, the important consideration was not so much the additional quantity disposed of as the educational aspect of the measures. Temporary schemes such as sales of "Christmas butter" could be undertaken at a time of the year when consumption was relatively large. Such schemes were expensive, however, and of limited effectiveness since consumers could stock the butter for use in subsequent months, so that the increase in apparent consumption of butter in December was partly offset by the reduction that could occur in ensuing months. Lastly, reduced-price sales of concentrated butter for cooking were limited to one member State. With respect to skimmed milk powder and liquid skimmed milk, aids were granted to encourage utilization for feeding calves or other animals such as pigs and poultry. Direct aid to skimmed milk powder used for feeding calves was at the rate of ECU 64.5/100 kg., while the subsidy to encourage disposal in "pig and poultry" compound feedingstuffs was of the order of ECU 125/100 kg. By reason of the latter subsidy, skimmed milk powder could be sold at a price in the vicinity of US\$250/ton. That greatly reduced price encouraged compound feed manufacturers to use skimmed milk powder. Sales for pig and poultry feed would be in the region of 500,000 tons in 1983, while internal consumption of skimmed milk powder for feeding calves could reach 1,300,000 tons. It was estimated that total public expenditure for programmes regarding skimmed milk powder consumption could be slightly in excess of ECU 2,000 million in 1983. The Community, which was faced with problems of surpluses, did not wish to export its difficulties, but to try first to solve them on its own market even at the cost of certain financial sacrifices in which producers were moreover associated, since the co-responsibility levy made them participate in disposal of some of those surpluses.

17. Referring to the Annex to Table I of the EEC document, the representative of New Zealand suggested that summaries of each of the regulations regarding the various aid programmes mentioned in that annex would be useful.

18. In reply, the representative of the EEC said that he would try to communicate to the secretariat the additional information requested. He described the salient characteristics of the main programmes and certain technical modalities that had been devised in order to ensure that the cut-price product did not subsequently reappear in normal trade channels at full price, the great difficulty of such reduced-price sales being to separate the two channels. In the context of reduced-price sales to the bakery and ice-cream industries, the butter was first processed into butter oil, to which a tracer and a marker were then added to colour it orange, thus distinguishing it from ordinary butter oil. For sales to the military and non-profit-making groups there was a system of vouchers, valid for three months, to be used for obtaining butter at reduced price.

19. The representative of South Africa said that in his country most of the measures designed to expand consumption comprised indirect government

schemes. The Dairy Board was empowered to impose levies on dairy products and to establish funds into which all revenue derived from the levies had to be paid for financing expenditure in respect of administration, advertising and promotional campaigns. With respect to subsidization of dairy products for promotion purposes, the emphasis was on school milk programmes and schemes for the benefit of institutions and persons in need.

20. The representative of New Zealand said that in his country the extent of government involvement in the direct promotion and assistance of consumption of dairy products was currently restricted to the subsidy on liquid milk for human consumption. Consumer prices for dairy products were low because they related directly to international market prices for these products.

21. The representative of Australia said that there were no direct government measures in his country aimed at increasing domestic consumption of dairy products, but individual dairying companies funded promotion of their own dairy product brands. Activities of the Australian Dairy Corporation were funded by the dairy industry through a levy on whole milk production, without any government financial input. In 1982/83 the Corporation had spent some US\$5.5 million on promoting consumption of dairy products, an increase by 30 per cent in relation to 1981/82. The promotion drives had yielded satisfactory results. Expenditure by the Corporation on promotion activities was forecast to increase to around US\$9 million in 1983/84.

22. The representative of Uruguay said that under the programme of nutritional education and food supplements for pre-school and school children the State acquired from the National Cooperative of Milk Producers (CONAPROLE) an annual quantity of 475 tons of whole milk powder for the feeding of children. The agreement had been extended for the period 1983-1985. The CONAPROLE sold annually to the Municipality of Montevideo up to 60,000 litres of milk daily which were subsidized by 0.06 pesos per litre for low income consumers. Years ago the subsidy had been rather large but at present it amounted to about 1 per cent of the price to the consumer. Government expenditure on this consumption programme for milk was close to US\$50,000 per year. There were no other food-aid policies involving dairy products.

Review of government measures to expand consumption of dairy products

23. The representative of the EEC asked the United States representative for some information regarding the total budget earmarked for consumption programmes. In addition, he enquired whether the United States Government intended to propose new domestic disposal measures for dairy surpluses in order to prevent any subsequent deterioration of the international market.

24. The representative of the United States said that net expenditure by the Commodity Credit Corporation (CCC) for the dairy support programme had totalled \$2,200 million in fiscal year 1982 and could reach \$2,700 million in fiscal year 1983. His authorities were considering expanding programmes to promote domestic consumption of dairy products. However, some of those programmes affected commercial sales.

25. The representative of the EEC said that in the Community the cost of surplus disposal measures was recorded when the products were sold on the internal market and not at the time of purchase by intervention agencies, the real cost of the measures being the difference between the purchase price and the sale price. The figures indicated by the United States represented the cost of the purchase transaction, not the cost of disposal. Referring to the information that some United States dairy disposal programmes affected normal commercial markets, he suggested that certain measures might be feasible to allow ready identification of products for disposal. In the case of skimmed milk powder for animal feed, the product could be denatured.

26. The representative of the United States said that the figures communicated represented net expenditure by the CCC for price support programmes in respect of dairy products. As already indicated, the CCC had hesitated to lower the price of skimmed milk powder sold for animal feed because of certain problems. Indeed, the cereal and soya industries were very sensitive.

27. The representative of Australia said that in the view of his delegation a policy of intervention buying always led to the accumulation of surpluses. So long as such a purchase mechanism existed, the dairy industry was not competitive; such government buying-in of dairy products inhibited competition and ultimately subsidized products such as soya. Even if support prices were lowered the system of intervention buying would continue to be a source of market distortion, leading to a situation where substantial expenditure was made to support production and other expenditure had to be incurred in order to dispose of surpluses.

28. The representative of the United States said that serious efforts were being made in his country to reduce production so as to bring supply and demand into balance.

29. The representative of the EEC said that implementation of dairy policy took account inter alia of major social and political consideration. It was often difficult to dispose of surpluses in a manner that was economical and profitable for consumers. The Community was making great financial sacrifices to dispose of a large part of its stocks internally in order to disturb the international market as little as possible. He hoped that participants would endeavour to solve the problem of surpluses in a spirit of collaboration.

30. The representative of Sweden said that apart from government measures to expand domestic consumption of dairy products, there were other factors whose importance should not be underestimated and which were more difficult to manage from the government's point of view. The government measures were relevant in the discussion of the situation but in examining the development of the consumption of dairy products account should also be taken of factors such as the development of disposable incomes, the evolution of prices of competing products and also of measures taken by parties other than the government.

31. In reply to a question regarding utilization of the proceeds from the co-responsibility levy in the dairy sector, the representative of the EEC said that a consumption promotion drive for dairy products was being funded from that source, as was part of the cost of certain disposal programmes.

32. The representative of Norway noted that his country had not furnished any information in the context of the current survey. In the view of his delegation, the discussion had shown that there were no grounds for optimism regarding possibilities for expanding consumption of milk and dairy products. His authorities had preferred to tackle the problem from the aspect of milk production and had proposed a two-price quota system. Government authorities were involved not only in increasing the consumption of dairy products, but also in nutritional policy, and there was a limit to their action possibilities. With respect to promotion of dairy products, milk producers themselves should bear the responsibility.

33. The representative of the United States pointed out that the compromise dairy bill included a mandatory deduction of 15 cents per 100 lb. for dairy product promotion research, and nutrition education. This provision was a recognition on the part of the government and of the industry that additional efforts were needed to promote consumption of dairy products.

34. The representative of New Zealand noted that the current meeting was being devoted to a survey of government measures to expand consumption of dairy products. In the view of his delegation, that survey was a step toward the discussion of policies to the extent that they affected international trade. He suggested that, in a first stage, the information communicated by the delegations should be brought into a more attractive form. Information furnished could be divided into three groups: in the first group, information communicated by Australia, South Africa and New Zealand where there were not many direct government programmes to expand consumption; in the second group, information communicated by the EEC and the United States where there were numerous consumption promotion schemes; the third group could comprise information communicated by other delegations. He suggested that the secretariat be instructed to bring the information together in a presentable form. The secretariat might start with the programmes of the EEC and the United States and try to tabulate and to describe the extent of these programmes. He added that the EEC and the United States might provide some additional information.

35. The representative of the EEC wondered whether the presentation suggested by the New Zealand representative would be useful. The document furnished by the EEC was comprehensive apart from a description of the regulations regarding the various aid programmes, which his delegation would endeavour to communicate to the secretariat. The United States document was as comprehensive as could be wished. In the view of his delegation, it sufficed to compare the two documents. The preparation of a new document containing tables on EEC and United States programmes, and which would in fact only reiterate information already furnished, did not seem to him of practical use.

36. The representative of the United States concurred with the doubts expressed by the EEC representative as to the usefulness of a new document comprising a compilation of information already furnished.

37. The representative of Australia said that his delegation could support the New Zealand representative's suggestion. A document bringing together the information furnished could be helpful to governments and would also constitute a contribution to the Council's work.

38. The representative of New Zealand emphasized that his suggestion was based on a question of presentation of the information communicated by delegations. The programmes of the EEC and the United States could be presented in a more attractive form by the secretariat with a view to allowing a comparison of the two programmes.

39. The representative of the EEC suggested that the secretariat might prepare a report on the current meeting with an annex containing some cost and quantity elements in respect of the various programmes.

40. The representative of Finland pointed out that the information communicated by interested delegations was comprehensive. Delegations could convey that information to their authorities.

41. The representative of the EEC noted that one of the first questions arising was that of controlling milk production. It seemed clear to his delegation that if substantial surpluses developed, the problem could not be solved by any action for additional disposals and expanding consumption. Another question was that of surplus disposal; action taken in that connection had been examined at the current meeting. In addition, there was the question of substitute products; indeed, government authorities were encountering difficulties in expanding consumption of dairy products because the latter were more and more being replaced by substitutes.

42. The representative of New Zealand reiterated that the purpose of the current meeting was to examine government measures to expand domestic consumption of dairy products. His delegation proposed that, as a first step, the secretariat should bring together the information available to it in as comprehensive a manner as possible, with special emphasis on measures adopted by the EEC and the United States.

43. The representative of Uruguay said that a document summarizing the information furnished would be useful and would allow governments to draw their conclusions.

44. The Committees agreed to pursue the survey of government measures to expand domestic consumption of dairy products. They instructed the secretariat to prepare a report on the current meeting and to undertake, with the aid of delegations, a first compilation of information furnished to facilitate its evaluation. They agreed to hold a joint meeting on the occasion of their December 1983 sessions, at which they would, inter alia, examine that first compilation.