

GENERAL AGREEMENT ON TARIFFS AND TRADE

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International Dairy Arrangement

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INTERNATIONAL DAIRY PRODUCTS COUNCIL

Reply to Questionnaire 5 Regarding Information on Domestic Policies and Trade Measures

NEW ZEALAND

Supplement

Introduction

New Zealand is heavily dependent on agricultural exports to finance imports for consumption and raw materials for industry. A quarter of the value of New Zealand's exports comes from the dairy industry (including dairy beef). As an earner of overseas exchange, dairying is therefore of considerable importance to the New Zealand economy.

The New Zealand dairy industry is organised entirely on a co-operative basis with producers having full control over both production and marketing of dairy products. At the production level farmers supply milk to co-operatively owned dairy companies for processing into various dairy products. At the apex of the co-operative structure is the New Zealand Dairy Board which is comprised of fourteen members, eleven of whom are representatives of the dairy farmers. The Dairy Board enjoys statutory powers to acquire and market all dairy products intended for export.

The town milk industry is organised as a separate sub-sector with the primary objective of providing a regular supply of whole milk for liquid consumption right through the year. Town milk suppliers' production is governed by individual quotas with any surplus production taken up by the manufacturing sector. Consumption of liquid milk has been trending downwards in recent years and now represents about 9 per cent of total New Zealand milk production.

The dairy industry has operated a self-balancing stabilization system in its various forms for well over four decades. The fundamental aim of the system has been and remains to ensure stability of farm incomes from season to season in the face of fluctuating prices on the international market. Key elements of the present dairy industry stabilization system are:

- (a) the establishment of basic values for the two main components of whole milk, namely milk fat and solids non-fat, and
- (b) operation of a self-balancing stabilization account.

The prices received by dairy farmers are determined with reference to the season's basic values for milk fat and solids non-fat (SNF) in whole milk. Under this system, the dairy products prices authority¹ fixes the basic values for milk fat and SNF in whole milk and these values are used by the Dairy Board to determine the purchase prices for dairy products acquired for export. The basic values for milk fat and SNF may be varied by not more than 10 per cent up and 5 per cent down from the basic values fixed for the preceding season. The Dairy Board Act does provide for greater than 10 per cent increases under exceptional circumstances.

At the end of each dairy season the Dairy Board assesses its trading accounts and if the industry has made a surplus on its sales the Dairy Board may distribute up to 50 per cent of the season's trading surplus by way of end of season payment. The balance is deposited into a stabilization reserve account.

Since 1978-79 the Government has operated a supplementary minimum price scheme for major primary products (including dairy). The main objective of the scheme has been to complement existing industry stabilization schemes by giving farmers a reasonable guarantee of a minimum level of income and thereby providing an assured and realistic base for forward planning without losing sight of long-term relativities. Since its introduction, the supplementary minimum prices for milk fat and the industry's own payments have been as follows:

<u>Year</u>	<u>(NZ\$ per kg.)</u>			
	<u>Basic price for milk fat</u>	<u>Supplementary minimum price</u>	<u>Government supplement</u>	<u>Total payment*</u>
1978-79	165	180	milk fat 6.58	180
1979-80	185	185	-	208
1980-81	230	230	-	265
1981-82	285	280	-	330
1982-83	318	325	-	361
1983-84	340	325	-	350
1984-85	355	-	-	N/A

*Including end of season payment.

There has only been one minor supplementary payment (1978/79). The supplementary minimum prices scheme for milk fat has been terminated with effect from 31 May 1984. In the case of the dairy industry this decision has had little or no consequence to the extent that SMP for milk fat, has been below the industry's basic price since 1978/79.

¹The Dairy Products Prices Authority is an independent body consisting of seven members - an independent chairman, three directors from the New Zealand Dairy Board and three nominated by the Government.

The new Government has introduced a prices and wage freeze for a three-month period beginning 18 July to 18 October. Prices for town milk and local market dairy products have been frozen at the levels prevailing at the time the regulations were introduced.

As described earlier the season's basic values for milk fat and solids non fat (SNF) in whole milk are used by the Dairy Board to fix the purchase prices acquired for export. Actual returns received by producers can vary for each co-operative company and are influenced by such factors as variation in manufacturing costs, products manufactured, and dairy company financial distribution policies.

On 18 July 1984 the New Zealand dollar was devalued by 20 per cent but this is not expected to have any material effect on payments to dairy farmers. Prior to devaluation payments to dairy farmers in the 1984-85 season were expected to be sustained through substantial withdrawals from stabilization reserves. Devaluation, assuming no further deterioration in international market prices, will have the effect of reducing the extent of such withdrawals to support the basic price.

Part B. Internal prices and consumption

Representative current retail prices for major dairy products are as follows:

(\$NZ)

Liquid milk (whole)	0.30 per 600 ML*
Butter (salted)	1.24 per 500 gr. pack
Cheese (mild cheddar)	4.43 per 1 kg. block

*Standard price: above standard prices are charged in a number of areas to cover higher costs of milk processing and distribution in those areas.

2 and 3. Factors and policies affecting consumption

(a) Liquid milk

As a basic item of food the Government has had a policy of subsidizing the consumption of liquid milk for direct consumption. Current Government policy aims to hold the total amount of the liquid milk consumer subsidy to \$NZ 30 million per annum. Liquid milk consumption has been declining steadily since 1976 reflecting the combined effects of price increases and diminishing importance of the consumer subsidy. To check this trend the town milk industry has been giving greater emphasis to milk promotion and product diversification.

Liquid milk consumption has remained virtually static over the last twelve months. For the eight-month period ended May 1984 milk sales fell by 0.4 per cent but cream sales rose by 4.7 per cent. Consumer prices for milk and cream have remained unchanged since June 1982.

(b) Butter

The manufacture of butter for local consumption receives an equivalent return to that the manufacturer would have received if it had been bought by the Board for export. Prior to 1 April 1980, if the domestic price, which is under price control, was lower (or higher) than the export the difference was paid to (or by) the manufacturer from (or to) an equalization account. With rising returns the equalization account registered increasing annual deficits which were offset by transfer payment by government. From 1 April 1980 the Government ceased these de facto consumer subsidies for local market butter and responsibility for equalizing domestic return and export markets now rests with the Dairy Board.

Butter consumption for the year ended 31 May 1984 amounted to 39,600 tonnes, slightly down on the 40,800 tonnes consumed the previous year.

(c) Cheese

Domestic cheese prices also move broadly in relation to export price levels. A levy is applied by the industry to finance TV advertising and other promotion. As a result of intensive advertising of the "Buy a Bigger Block" campaign, consumption has grown from 15,800 tonnes to 26,100 tonnes between 1975-76 and 1978-79. Since then there has been some stabilization in the rate of growth in cheese consumption. For the year ended May 1984 cheese consumption amounted to 26,400 tonnes or 8.3 kg. per capita compared to 27,000 tonnes or 8.4 kg. per capita in the previous year.

Part C. Measures at the frontier

1. Tariff

New Zealand tariffs on dairy products are relatively low (see appendix) where they are compared to other countries.

2. There are no quantitative restrictions or quotas on the import into New Zealand of main dairy products - butter, cheese, casein and milk powders. Only in the case of one dairy product (04.02.001 - condensed or evaporated milk) does a small variable tariff apply (see table for tariff details).

3. Tariff classification is according to CCC Nomenclature. New Zealand applies a policy that would permit the free flow of dairy products in international trade. Consequently minimal restraints are imposed on

imports. Due to economies of scale and a favourable climate, dairying is a low cost industry and can compete openly with dairy imports. The efficiency that has been achieved can in fact be attributed to the sensitivity of the industry to international market conditions. This has forced a continuing search for economies of scale and manufacturing flexibility.

Part D. Bilateral, plurilateral and multilateral agreements

1. The following trade agreements to which New Zealand is a signatory make specific provision for according preferential treatment to dairy products:

(a) The Australia/New Zealand Closer Economic Relationship Trade Agreement (ANZCERT). This Agreement, superseded and advanced the provisions of the previous New Zealand/Australia Free-Trade Agreement (NAFTA). Under the new Agreement the 1,220 tonne quota relating to sendings of Cheddar cheese from New Zealand to Australia was removed. Under ANZCERT the overall trade in dairy products between both countries will be managed through joint industry consultations, provision for which has been incorporated in the Agreement.

(b) The trade agreement between the Government of New Zealand and the Government of the People's Republic of China: both signatories agree to facilitate imports from and exports to the other country with particular importance being attached to a number of specific products. For Chinese exports to New Zealand this includes agricultural products and for New Zealand exports to China this includes dairy products.

(c) The trade agreement between the Government of New Zealand and the Government of the Federation of Malaysia: this agreement contains three categories of preferential treatment for goods enumerated in schedules attached to the agreement, which shall be accorded by one signatory to the other. The categories are:

- (i) the rates of duty not being higher than those specified in the schedule concerned;
- (ii) margins of preference not to be lower than those specified in the schedule concerned;
- (iii) the preferential tariff of the signatory being used for the benefit of all other goods.

In terms of these three categories of treatment, New Zealand exports to the Federation of Malaysia of the dairy products listed below are entitled to rates of duty no higher than those specified (category (i) above):

<u>Federation of Malaysia</u> <u>Tariff item</u>	<u>Description of goods</u>	<u>Rate of duty</u>
022.022	Milk powdered. Skimmed for human consumption	Free
022.023	Milk powdered, Skimmed for animal consumption	Free
023.012	Butter, fresh, whether salted or not. Not in airtight containers	6 cents per lb.
024.011	Cheese	7 1/2 per cent
029.093	Milk-based infant food	Free

While on the dairy products listed below the margins of preference are not to be lower than those specified (category (ii) above):

<u>Federation of Malaysia</u> <u>Tariff item</u>	<u>Description of goods</u>	<u>Margin of preference</u>
022.021	Milk powdered, full cream	\$4 per 100 lb.
022.022	Milk powdered, skimmed for human consumption	\$4 per 100 lb.
022.023	Milk powdered, skimmed for animal consumption	\$4 per 100 lb.
023.011	Butter in airtight containers	4 ¢ per lb.
023.012	Butter, fresh, whether salted or not. Not in airtight containers	4 ¢ per lb.

Part D. Canada/New Zealand Trade Agreement 1982

The New Zealand/Canada Trade and Economic Co-operation Agreement came into being on 1 January 1982. The Agreement maintains ("freezes") the existing preferential tariff rates applied by both countries and contains provisions to develop further trade, investment and technological co-operation between Canadian and New Zealand companies.

In the Agreement Canada reaffirmed its intention to turn to New Zealand as a preferred supplier of butter when Canada has an import requirement for butter, and to consult with New Zealand if consideration is being given to changing the import régime on cheese, buttermilk powder or casein. If, after consultation, intensification of quantitative restrictions still occurs, resulting in substantial impairment of the Agreement, Canada is then required to offer New Zealand a compensatory benefit.

Tariff preferences:

	<u>New Zealand</u>	<u>BP</u>	<u>MFN</u>
Casein	12 1/2 per cent ad valorem	17 1/2 per cent ad valorem	25 per cent ad valorem
Milk powder	1 cent/lb.	2 1/2 cents/lb.	3 1/2 cents/lb.
Butter	5 cents/lb.	8 cents/lb.	12 cents/lb.
Cheese	1 cent/lb.	3 cents/lb.	3 1/2 cents/lb.

Note: The rates for New Zealand are frozen as from 1 January 1982.

2. In respect of New Zealand dairy exports to the European Community (EC), special access provision has been made for New Zealand butter to enter Britain although a levy is imposed on these imports. Under Protocol 18 of the Treaty of Accession negotiated at the time of British entry to the European Community, New Zealand was provided with access to the British market for specified quantities of butter for an initial period of five years ending 31 December 1977. This special arrangement has subsequently been renewed for two three-year periods expiring on 31 December 1983. A five year access arrangement for the import of New Zealand butter until 31 December 1988 comes into effect this year. Initially New Zealand was obliged to respect a minimum off-price on which a special variable levy was added in order to bring the selling price of New Zealand butter up to the level of internal Community butter prices. In 1981, this minimum selling price obligation was removed and replaced by a special fixed levy system (with the levy payable equivalent to 25 per cent of the EC butter market intervention price). No jurisdiction in the area of agriculture has resulted in that part of the trade agreement with the Federal Republic of Germany according special treatment for New Zealand exports of dairy products to that country, being superseded.

3. In addition to the trade agreements listed above, which contain specific provisions on according dairy products preferred treatment. New Zealand is a signatory to a number of m.f.n. trade agreements with other countries where dairy products would be eligible to receive such m.f.n. treatment.

These countries include:

- The Arab Republic of Egypt
- The Bulgarian People's Republic
- German Democratic Republic
- The Hungarian People's Republic
- The Republic of the Philippines
- The Polish People's Republic
- The Republic of Iraq
- The Republic of Italy
- The Republic of Japan
- The Republic of Korea
- The Socialist Federal Republic of Yugoslavia
- The Socialist Republic of Romania
- The Union of Soviet Socialist Republics

4. In the Multilateral Trade Negotiations, New Zealand signed two bilateral agreements which provided for improved trading conditions for dairy products. These agreements were signed with the United States and the EEC as published in the white paper on the negotiations published by the New Zealand Government and which is publicly available.

APPENDIX

NEW ZEALAND TARIFF

<u>Tariff Number</u>	<u>Goods</u>	<u>Australian Rates</u>	<u>Other</u>
04.01.000	Milk and cream, fresh, not con- centrated or sweetened	1983 Free	Norm 10 CAN PAC FREE
04.02	Milk and cream, preserved, con- centrated or sweetened		
04.02.001	Liquid or semi-solid	1983 Free	Norm 10 ¹ CAN FREE PAC FREE
04.02.009	Other	1983 5 1984 Free	Norm 20 CAN 10 PAC FREE
04.03.000	Butter	1983 Free	Norm 10 CAN FREE PAC FREE
04.04	Cheese and curd cheese		
04.04.001	Cheddar	1983 Free	Norm 10 PAC CAN FREE
04.04.005	Other	1983 Free	Norm 20 CAN 10 PAC FREE
04.04.009	Curd	1983 Free	Norm 10 PAC CAN FREE
35.01.001	Casein, caseinate and other casein derivatives	1983 Free	Norm 10 PAC CAN FREE

¹Plus a duty to the amount by which the c.i.f. value is less than \$73.60 per 100 kg.