

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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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 percent 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 authority 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 percent up and 5 percent down from the basic values fixed for the preceding season. The Dairy Board Act does provide for greater than 10 percent 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 percent of the season's trading surplus by way of end of season payment. The balance is deposited into a stabilization reserve account. After initially setting the basic price for the 1984-85 season at 355 cents per kg of milkfat the Dairy Products Prices Authority increased the basic price to 381 cents in February 1985. At the end of the season the Dairy Board declared an end of season payment of 15 cents to bring the total payment for the season to 396 cents. The basic price for the 1985-86 season has been set at 400 cents.

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 percent but this did not 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 had the effect of removing the need for withdrawals from reserves, and enabled a slight trading profit to be realised.

Part B Internal Prices and Consumption

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

(NZ\$)

Liquid milk (whole)	0.41 per 600 ML*
Butter (salted)	\$1.56 per 500 gr. pack
Cheese (mild cheddar)	\$5.45 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. In recent years the Government policy had been to hold the total expenditure on milk subsidy to \$NZ30 million per annum. Following a review of its assistance and welfare policies the Government decided to terminate the milk subsidy with effect from 1 March 1985. As a consequence the consumer price was increased from 30 cents per 600 ml bottle to 35 cents on 1 March 1985. A further 5 cent increase took effect on 1 September 1985 raising the consumer price to 40 cents per 600 ml bottle.

Liquid milk consumption per capita has remained relatively static in the last couple of years despite a continuing decline in fresh white milk consumption. The difference has been made up by increasing consumption of cream, UHT milk, flavoured milk, yoghurt and cottage cheese etc. Over the twelve month period ended August 1985, white milk sales fell by 2.7 percent. At this stage no significant changes in consumption patterns have emerged as a result of changes in milk consumer prices and subsidy payments.

(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 1985 amounted to 39,100 tonnes, slightly down on the 40,900 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 1985 cheese consumption amounted to 27,300 tonnes or 8.4kg per capita compared to 25,500 tonnes or 7.9 kg per capita in the previous year.

PART D - BILATERAL, PLURILATERAL AND MULTILATERAL AGREEMENTS.

1. (a) Final sentence reads: Under ANZCERTA the overall trade in dairy products between both countries is being developed through joint industry consultations, provision for which has been incorporated in The Agreement.
3. New Zealand is also a signatory to an M.f.n. trade agreement with the Islamic Republic of Iran.