

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

AUSTRALIA

Revision to Section A(a)-(c) of Australia's reply to Questionnaire 5 contained in document DPC/INV/3/Add.6:

A. Production

Support and stabilization measures

Due to changes in the international trading environment, Australia's dairy industry was forced to rationalize in the 1970s with major reductions in the number of dairy farms, milk production and the level of exports.

Since 1980-81 milk production has increased again but has stabilized in the last two years. Returns from the export market have remained depressed due largely to increased world production and the level of subsidized exports entering a restricted world market. These developments have placed increased pressure on the Australian dairy industry despite its being one of the lowest-cost industries in the world. In these circumstances the Australian Government has reviewed its support and stabilization measures for the industry and new marketing and assistance arrangements were introduced from 1 July 1986.

These arrangements (outlined in brief below) have the objective of ensuring the development of a more efficient and profitable industry, able to respond as quickly as possible to changing market conditions and technology. In particular, the arrangements provide that the production of those products which are most profitable is encouraged and that the more profitable export markets are exploited and production for export that returns a loss is discouraged. In this regard distortionary assistance arrangements have been abolished so that market forces can play a larger rôle in decision-making relating to product mix. In particular, the abolition of export pooling and "allowances" (which treated certain costs as costs to be met by the industry as a whole) will ensure that producers and marketers themselves reap the benefits/costs of their own production and marketing decisions.

The new arrangements assist the industry by supporting higher domestic prices than would otherwise be the case. The level of domestic price support will, however, be reduced progressively to fair import parity of New Zealand products. The new arrangements involve inter-industry transfers through the imposition of a levy; however, the amount of the

upper amount of the levy is fixed and the arrangements expire in six years' time.

(a) Inventory of the instruments of support and/or stabilization

There are two distinct markets and Government support arrangements for milk. Milk used for liquid human consumption is termed "market" milk, whereas milk used for the manufacture of dairy products is termed "manufacturing" milk. In 1985/86, of total milk production of about 6,030 million litres, market milk accounted for about 1,620 million litres.

Production, distribution and pricing of market milk is controlled by individual State Governments whilst Australian Government (Federal) support is directed at manufactured dairy products.

The main provisions of the marketing arrangements for manufactured dairy products are:

- (i) Setting up of a Market Support Fund financed by a levy on all milk produced, including milk for the liquid market¹; this levy imposed on the milk fat component and is limited by a ceiling of 45 cents/kg. milk fat or the equivalent of 2 cents/litre of milk. Assistance is provided to manufactured products by supporting domestic prices above international market prices by a fixed percentage. This is achieved by paying manufacturers exporting all dairy produce a market support payment normally at the rate of 30 per cent of the estimated average export price for the season for the major dairy products, adjusted to a bulk ex-factory basis. For other dairy products, rates will be set having regard to those for the major products. Under certain circumstances, a rate other than 30 per cent may be payable; less may be paid when funds are insufficient or other market-related reasons, more at a time of collapse in world market prices. The Bureau of Agricultural Economics calculates a trend price for certain major products, i.e. the export price that would prevail if export prices were on their longer-term trend. When the average export price for these major products is less than 85 per cent of the trend value, the market support rate will be the difference between 110 per cent of the trend value and the estimated current average export price.
- (ii) Setting up a Supplementary Market Support Fund aimed at smoothing the transition from the current arrangements to the new one. It will be financed by levies on domestic sales of butter/butteroil and cheddar-type cheeses credited to the supplementary market support fund. Supplementary market support payments will be made

¹The other special arrangements for the liquid market, which are under State and not Federal Government control, remain unchanged.

from this fund until the fund is exhausted. The levy on cheese will be phased-out in five equal six-monthly steps starting on 1 July 1987. As regards butter/butteroil, the levy will be reduced to about half by 1 July 1987 in five equal six-monthly steps, commencing on 1 July 1986. A review in 1988/89 is to consider the desirability of phasing-out the butter levy altogether.

(b) Levels of guaranteed prices or support prices

The new dairy marketing arrangements which became operative on 1 July 1986 support domestic prices of dairy products through market support payments on exports of all dairy produce. These market support payments generally represent 30 per cent of the estimated average export price of the product and are funded by a levy on all milk fat produced. The levy to apply from 1 July 1986 is 35 cents/kg.

In addition, to provide the industry with time to adjust to the new arrangements, interim assistance is provided by means of supplementary market support payments funded from levies on butter and cheese. These levies are as follows:

	<u>1986/87</u>
Butter/butteroil (cbe) ¹	\$A 668/tonne
Cheddar-type cheeses	\$A 234/tonne

As described in (a) these levies will be phased-out progressively.

The Australian Government also underwrites the average export returns for butter, cheddar-type cheeses, skim milk powder/buttermilk powder, casein and wholemilk powder at 85 per cent of their respective long-term trend prices. The trend price of a product is determined by ordinary least squares analysis over a period of eight years with observations of actual average export prices for seven years and the estimated average export price for the year in which underwriting applies. The underwritten values for 1986/87 are shown below:

<u>Product</u>	<u>\$A/tonne</u>
Butter/butteroil (cbe) ¹	1,097
Cheese (cheddar-types) ²	1,308
Skimmed milk powder ³	1,175
Casein	2,138

¹ cbe = commercial butter equivalent

² Cheddar, Cheddar types, Cheedam, Colby, Monterey, Granular and Stirred Curd

³ Includes skimmed milk powder, buttermilk powder, skimmed milk powder/buttermilk powder mixtures and skimmed milk powder modified

(c) Amount of producer subsidies

Apart from some assistance measures which operate for all primary producers (such as taxation allowances, income equalization, fertilizer subsidies), milk producers do not receive direct subsidies. Assistance for market milk is provided through the State Government marketing arrangements, which focus on the establishment of domestic retail prices, industry margins and production controls.