

GENERAL AGREEMENT ON

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TARIFFS AND TRADE

International Dairy Arrangement

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INTERNATIONAL DAIRY PRODUCTS COUNCIL

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

AUSTRALIA

Australia is one of the more efficient, relatively low-cost dairy producing and exporting countries. Dairying, Australia's fourth largest agricultural industry, is located mainly in the South Eastern coastal region of the mainland and in Northern Tasmania, where rainfall is high and reliable.

Total production amounts to 6,500 million litres of milk per annum, worth about \$A 1.7 billion. About a quarter of this is sold domestically as whole milk (including flavoured and UHT). The rest is used to manufacture butter, cheese, milk powders and a wide range of dairy products such as condensed milk, casein, yoghurt and cream. About one third of manufactured product is exported. The industry directly employs some 50,000 people and indirectly employs a further 50,000.

The present marketing arrangements are to continue past June 1992 in a slightly modified form. Originally, the main policy objective of these arrangements was to significantly and progressively reduce assistance levels to the industry. This objective remains under the new arrangements, as does the Government's commitment to industry maintaining its ability to compete with products from other countries in both the Australian domestic and export markets.

A. PRODUCTION

Support and stabilization measures

Milk production for the period 1986/87 to 1989/90 has remained stable, with a slight increase in production during the last two seasons. The current trend in the industry is to fewer farms, larger herds and improved feed, breeding and general farm management practices.

Both of these outcomes can be ascribed as the result of the present marketing arrangements (known as the 'Kerin Plan'), established in July 1986. While these arrangements are aimed at improving efficiencies and making the industry more able to respond to changing conditions in the world market, they have also assisted the industry by supporting higher domestic prices than would otherwise be the case. The level of domestic price support is, however, equivalent to fair import parity with New Zealand products. These arrangements involve transfers within the dairy industry

through a levy on all milk produced and payments on the export of manufactured products.

With major components of these arrangements expiring in June 1992, legislation is being enacted to allow for the continuation of slightly modified arrangements until 1999-2000, when the arrangements sunset.

(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. Market milk accounts for 40 per cent of total milk production while manufacturing milk accounts for the remainder.

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

The main provision of the marketing arrangements for manufactured dairy products is:

Market Support Fund - financed by a levy on all milk produced, including milk for the liquid market; this levy is imposed on the milkfat component and is limited by a ceiling of 45 cents per kilogram milkfat which approximates to 2 cents per 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 at a rate of not more than 30 per cent of the estimated average export price of the season for the major dairy products, adjusted to a bulk ex-factory basis. For other dairy products, rates are set having regard to those for the major products.

Under the new arrangements the maximum rate for this market support will be 22 per cent in 1992-93, the actual rate for 1991-92. Thereafter, the rate will be reduced in equal annual steps each year to 10 per cent in 1999-2000.

(b) Levels of guaranteed prices or support prices

In keeping with the current Australian Government's policy, Government underwriting of dairy export returns will terminate from 30 June 1992. From 1992-93 there will be no fixed support prices or guaranteed prices for exported dairy products.

(c) Amount of producer subsidies

Apart from some measures which operate for all primary producers (such as income equalization), milk producers do not receive direct subsidies. Market milk prices are regulated through the State Government marketing arrangements. State market milk arrangements are gradually being reduced,

particularly in processing and distribution areas.

(d) Average returns to producers, including methods of determining those returns

The average farmgate return for manufacturing milk in 1990-91 was 21.4 cents per litre. The average farmgate return for market milk during 1990-91 was 41.9 cents per litre. Note that the average returns differ markedly from State to State. As there is little interstate trade in market milk, a key factor in the average returns for a milk producer is the proportion of milk used as market milk in the State where he is located.

B. INTERNAL PRICES AND CONSUMPTION

Representative retail and wholesale prices on major domestic markets

Average retail prices for selected dairy products for 1990-91 were:

<u>Item</u>	<u>Unit</u>	<u>\$A</u>
Milk, carton, supermarket sales (Sydney)	1 litre	0.96
Milk, bottled, delivered (Sydney)	600ml.	0.56
Butter	1 kg.	3.89
Cheese, processed, sliced	1 kg.	4.95
Cheese, processed, sliced, individually wrapped	1 kg.	6.08
Natural Cheddar (tasty), block cheese	1 kg.	6.78

Factors which condition the evolution and level of internal consumption

The Australian retail food market is competitive and considerable media advertising and other sales promotion activities are a regular feature of retailing. Increasing awareness of health and nutrition aspects of diet have been a key factor in marketing strategies in recent years.

Butter sales continue to face strong competition from margarine (saturates, poly- and mono-saturates), which is cheaper than butter and in the 1991 calendar year held 74 per cent of the domestic tablespread market. Butter sales in this period declined (holding an 18.3 per cent share of the market), as did dairy blend sales (holding a 7.6 per cent share). Cheese sales also declined in the 1991 calendar year, especially shredding cheese types.

Policies and measures and comments on their effects on consumption

Promotion of market milk (liquid milk for human consumption) including flavoured milk is carried out by State Government milk authorities. Expenditure in 1989-90 totalled about \$A 14 million.

A levy on all milk production is used by the Australian Dairy Corporation to fund the promotion of dairy products. In 1990-91 the levy was 4.65 cents per kg. milkfat and raised an estimated \$A 12.89 million,

which was used for: butter and cheese advertising in the media; health and nutrition programmes directed at medical practitioners, dietitians and nutritionists; and other promotional activities for school children. In addition to industry generic advertising, individual manufacturers and retailers advertise branded products. These promotion campaigns have been instrumental in fostering positive consumer attitudes towards dairy products. Per capita consumption of dairy products in recent years has been as follows:

Per Capita Consumption of Dairy Products (kg./head)

Product	1986-87	1987-88	1988-89	1989-90	1990-91
Market milk (litres)	102.9	101.7	101.6	102.2	101.8
Butter	3.5	3.1	2.9	3.4	3.2
Cheese	8.5	8.8	9.2	8.9	8.8
Yoghurt	3.0	3.2	3.6	3.5	3.8

Source: ADC 1991 Dairy Compendium

C. MEASURES AT THE FRONTIER

Customs tariff

Most dairy product imports entering Australia are duty free. However, some import duties are applied and these are outlined in Appendix A.

Other measures

(a) Imports

As a founding member of the GATT, Australia has placed considerable emphasis on avoiding measures contrary to the spirit of that Agreement. In the case of dairy products, the only constraints which Australia imposes on imports other than the tariff are those relating to compliance with marking requirements and/or quarantine requirements (see Appendix B).

Australia has tariff rate bindings on dairy products which were negotiated during the Tokyo Round of the GATT Multilateral Trade Negotiations (see Appendix C).

It has also acceded to the Harmonized Commodity Description and Coding System Convention and is obliged to observe these requirements in its tariff.

(b) Exports

Exporters of manufactured dairy products are eligible for market

support payments, set at a rate not more than 30 per cent of the estimated average export price of the season for the major dairy products, adjusted to a bulk ex-factory basis. These payments are funded through a levy on all milk produced with a ceiling of 45 cents per kilogram milkfat (or approximately 2 cents per litre).

Under the new arrangements the maximum rate for this market support will be 22 per cent in 1992-93, the actual rate for 1991-92. Thereafter, the rate will be reduced in equal annual steps each year to 10 per cent in 1999-2000.

Australia has a number of bilateral commitments relating to dairy products (see Section D).

(c) Measures to ensure observance of IDA minimum prices

The Dairy Produce Amendment Act 1987, which came into effect on 26 December 1987, provides the framework for the regulation and control of the export of dairy products. This Act replaces criminal penalties in the Dairy Produce Act 1986 for Australian exporters selling below GATT IDA minimum prices for dairy products with an economic penalty.

Under current arrangements, exporters who breach IDA minimum prices will be required to pay the Australian Dairy Corporation the difference between the price for which they sold their dairy products and the current IDA minimum price for the particular dairy product. Failure to do so may lead to the Australian Dairy Corporation suspending or cancelling the exporter's licence. The amendments brought Australia into line with the other major IDA members who impose economic penalties on breaching exporters.

Procedures are also in place to ensure that the export of dairy products from Australia is only undertaken by licensed exporters who have been issued with a current Certificate of Authority to Export (CAE) for that shipment by the Australian Dairy Corporation. Exporters are required to provide details of this CAE when making application for an export permit. The CAE carries a notification to the exporter of his obligations to observe the Arrangement's minimum prices.

The Australian Dairy Corporation has also been directed by the Ministry for Primary Industries and Energy to ensure observance of the Arrangement's minimum prices and to notify the Government of any instance where the pricing of dairy products exported from Australia has been in breach of the Arrangement. To perform these tasks, the Corporation monitors the IDA minimum prices and to date has not had occasion to make a report to the Government pursuant to the ministerial directives it has received.

D. BILATERAL, PLURILATERAL AND MULTILATERAL AGREEMENTS

The Australia New Zealand Closer Economic Relations - Trade Agreement (ANZCERTA) came into effect on 1 January 1983. Its objective is to completely liberalize trade between Australia and New Zealand. Trade in

dairy products between the two countries was covered by a Memorandum of Understanding on Dairy Products (MOU) between the Australian and New Zealand dairy industries. The MOU placed certain limitations on dairy trade between the two countries. A Joint Dairy Industry Consultative Committee was established under the MOU to provide a forum for consultations between the two industries, and to oversee the conduct of trans-Tasman dairy trade. In 1988, a general review of the ANZCERTA was carried out and the future of the MOU and trans-Tasman trade in dairy products in general was considered as a part of this review.

The major outcome of the 1988 review with respect to dairy was that from 1 July 1990, the MOU would cease to be part of the ANZCERTA, and trade in dairy products would be governed by the provisions of the ANZCERTA and subsequent protocols. The two Governments entered into understandings to ensure trans-Tasman trade would be conducted on a basis that was consistent with the principles of free trade and fair competition contained in the ANZCERTA.

Within the Tokyo Round of the GATT Multilateral Negotiations, Australia concluded agreements on dairy products with the EC and the United States.

Under the MTN bilateral agreements on dairy products, Australia received access to the EC market for 2,500 tonnes a year of Cheddar for direct consumption and 500 tonnes a year of cheese for processing. Initial arrangements provided for these exports to be subject to an import levy of 12.09 ECU/100 kg. and also minimum import prices which were to be adjusted from time to time. Because of marketing problems arising from the operation of the minimum import prices, negotiations were opened in 1983 to determine new terms of access. On 11 December 1984, an exchange of letters was signed between the Government of Australia and the EC Commission providing for the suspension of the minimum import price arrangements and, in turn, an increase in the import levy to 153 ECU/100 kg.

The new arrangements commenced on 16 December 1984 and remained in force initially until 31 December 1986. Since then the arrangements have continued on an indefinite basis subject to each party having the right to denounce them by giving six months' notice in writing. If the current arrangements were to be denounced then the access arrangements would revert to the original arrangements, i.e. a levy of 12.09 ECU/100 kg. subject to minimum import prices.

Australia granted the EC duty-free access for surface-ripened soft cheese, Stilton, Roquefort and goats' milk cheese (except Feta and Kasseri). In addition, it guaranteed access of not less than 1,000 tonnes of Edam and Gouda per annum at a rate of \$A 86/tonne and 2,500 tonnes of other cheeses (excluding in particular Cheddar, Feta and Kasseri) a year at a rate of \$A 96/tonne.

The United States granted Australia an aggregate annual quota entitlement of 4,000 tonnes of cheese divided up into a number of cheese varieties plus an annual entitlement of 2,000 tonnes of chocolate crumb over 5.5 per cent milkfat content.

APPENDIX A

Australian Tariff Abbreviations Used

DC - Developing country

FI - Forum Island

PNG - Papua New Guinea

NZ - New Zealand

t - Tonne

Customs Tariff

Schedule 3

Rate	Heading No.	Goods
	0401	MILK AND CREAM, NOT CONCENTRATED NOR CONTAINING ADDED SUGAR OR OTHER SWEETENING MATTER:
Free	0401.10	- Of a fat content, by weight, not exceeding 1 per cent
Free	0401.20	- Of a fat content, by weight, exceeding 1 per cent but not exceeding 6 per cent
Free	0401.30	- Of a fat content, by weight, exceeding 6 per cent
	0402	MILK AND CREAM, CONCENTRATED OR CONTAINING ADDED SUGAR OR OTHER SWEETENING MATTER:
Free	0402.10	- In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5 per cent
	0402.2	- In powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5 per cent:
Free	0402.21	-- Not containing added sugar or other sweetening matter
Free	0402.29	-- Other
	0402.9	- Other:
Free	0402.91	-- Not containing added sugar or other sweetening matter:
Free	0402.99	-- Other
	0403	BUTTERMILK, CURDLED MILK AND CREAM, YOGHURT, KEPHIR AND OTHER FERMENTED OR ACIDIFIED MILK AND CREAM, WHETHER OR NOT CONCENTRATED OR CONTAINING ADDED SUGAR OR OTHER SWEETENING MATTER OR FLAVOURED OR CONTAINING ADDED FRUIT OR COCOA:
Free	0403.10	- Yoghurt
Free	0403.90	- Other

Customs Tariff

Schedule 3

Rate	Heading No.	Goods
	0404	WHEY, WHETHER OR NOT CONCENTRATED OR CONTAINING ADDED SUGAR OR OTHER SWEETENING MATTER; PRODUCTS CONSISTING OF NATURAL MILK CONSTITUENTS, WHETHER OR NOT CONTAINING ADDED SUGAR OR OTHER SWEETENING MATTER, NOT ELSEWHERE SPECIFIED OR INCLUDED:
Free	0404.10	- Whey, whether or not concentrated or containing added sugar or other sweetening matter
Free	0404.90	- Other
Free	0405	BUTTER AND OTHER FATS AND OILS DERIVED FROM MILK
	0406	CHEESE AND CURD:
Sch.5	0406.10	- Fresh cheese (including whey cheese), not fermented, and curd
Sch.5	0406.20	- Grated or powder cheese, of all kinds
Sch.5	0406.30	- Processed cheese, not grated or powdered
	0406.40	- Blue-veined cheese
Free	0406.40.10	--- Cheese, of the following types: (a) roquefort; (b) stilton
Sch.5	0406.40.90	--- Other
	0406.90	- Other cheese:
Free	0406.90.10	--- Cheese, of the following types: (a) made wholly from goats' milk, other than feta or kasseri; (b) surface-ripened soft, having: (i) a fat content in the dry matter of not less than 50 per cent by weight; and (ii) a moisture content of not less than 65 per cent by weight of the non-fatty matter
Sch.5	0406.90.90	-- Other

Customs Tariff

Schedule 5

Rate	Item	Goods
	61	Cheese and curd, being goods classified under a heading or sub-heading of Schedule 3 specified in the Table below:
		<u>The Table</u>
	0406.10.00	0406.30.00 0406.90.90
	0406.20.00	0406.40.90
\$A 96/t (311) DC:\$A 96/t; less 5%	61A	- Goods, as prescribed by by-law
\$A 2 100/t DC:\$A 2 100/t; less 5%	61V	- Other

Unless otherwise indicated NZ, PNG, FI and DC rates are free

Quarantine requirements

Due to geographic isolation and to strict quarantine controls, Australia remains free of many of the serious animal diseases which occur in many other parts of the world. Food products of animal origin may only be imported into Australia in accordance with the provisions of the quarantine legislation. The specific purpose of the legislation is to prevent the entry into Australia of exotic diseases.

The Commonwealth Department of Primary Industries and Energy is responsible for the administration of quarantine provisions relating to the importation of foods. A number of foodstuffs are prohibited from importation unless permission in writing from the Minister for Primary Industries and Energy has been granted.

The importation of foodstuffs of animal origin is subject to restrictions in the case of certain countries, or, made subject to certain conditions according to the disease status of the exporting country and the degree of assessed quarantine risk associated with the animal or animal product concerned.

Commercially manufactured dairy products including casein, milk (including dried or powdered milk, condensed or concentrated milk and milk albumen), cream, butter and ice cream, may be imported by sea or air, but only when produced in and consigned from Canada, Denmark, Finland, Japan, New Zealand, Norway, Sweden, Irish Republic, Great Britain and the United States, unless permission is granted by the Director of Animal and Plant Quarantine for importation for therapeutic or scientific purposes.

There is a general prohibition on the importation of non-commercially manufactured dairy products and commercially manufactured dairy products from non-approved countries with the exception of cheese and lactose.

Cheese from countries other than those mentioned above is subject to 120 days quarantine unless exempted by the Director of Animal and Plant Quarantine on the basis that the manufacturing process, as submitted, is such as would inactivate the virus of foot-and-mouth disease. Some 90 per cent of the European cheeses for which exemption has been sought have been so exempted. Lactose can be imported from any country without prior approval and without impediment.

Prepared infant food containing milk may be imported in a quantity not exceeding 1 kilogram with an infant under two years of age arriving on a vessel or aircraft from any country.

The importation of cheese of the type which contains meat or meat products or which is enclosed in a casing of animal origin is prohibited.

Dairy products entering Australia are monitored by the Department of Primary Industries and Energy for listeria and radioactivity contamination on a random basis. The intensity of testing imported cheese for listeria

is categorized with the control being the sensitivity of each particular cheese type to listeria contamination.

Caseinates may also be imported from the Netherlands dependent on individual process and factory approval and must be accompanied by prescribed Government certification.

Marking requirements

The commerce marking requirements are designed essentially to:

- (a) protect those traders who correctly describe their goods, from the actions of competitors who, by false or misleading descriptions, deceive the consumer; and
- (b) protect the consumer by requiring specific goods to carry certain markings.

These Regulations require specified goods to have applied to them a trade description in the form of a principal label which must contain:

- (a) the name of the country in which the goods were made or produced;
- (b) for the specified goods, a true description and other specified markings;
- (c) weight and measure markings; and
- (d) elimination or restriction of use of descriptions intended to mislead.

Markings must be in English.

Under the General Agreement on Tariffs and Trade, Australia has agreed:

- not to apply to imports from GATT countries' rates of duty in excess of those set out below for the following goods:

0406	Cheese and curd	Rate of duty
0406.10	Fresh cheese (including whey cheese), not fermented, and curd	\$A 0.096/kg. ¹
ex 0406.20	Grated or powdered cheese - <u>except</u> cheddar	\$A 0.096/kg. ¹
ex 0406.30	Processed cheese, not grated or powdered - <u>except</u> - cheddar - emmenthaler or gruyère - types when in packs not exceeding 284 grams	\$A 0.096/kg. ¹
0406.40	Blue-veined cheese - roquefort; stilton - other	Free \$A 0.096/kg. ¹
ex 0406.90	Other cheese as follows: - cheese made wholly from goats' milk - <u>except</u> - feta - kasseri - surface-ripened soft cheese having: (a) a fat content in the dry matter of not less than 50% by weight; and (b) a moisture content of not less than 65% by weight of the non-fatty matter - edam; gouda - other - <u>except</u> - cheddar - feta - kasseri - swiss or emmenthaler types	Free Free Free \$A 0.096/kg. ² \$A 0.096/kg. ¹

¹For not less than a combined total of 2,500 tonnes per annum

²For not less than 1,000 tonnes per annum