

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## STATEMENT MADE BY THE NEW ZEALAND DELEGATE ON 22 JUNE 1966 PRESENTING THE NEW ZEALAND DAIRY PROPOSAL

It will be apparent to all members of the Group from the document circulated by New Zealand before this meeting - and from New Zealand's attitude during earlier meetings of the Dairy Group - that we see the conclusion of a general arrangement governing world trade in dairy products as an essential element in any balanced conclusion to the negotiations. Accordingly when we came to table New Zealand's agricultural and industrial offers on 16 September last year, we also submitted for consideration by our partners in the Group a specific proposal for the conclusion of such a general arrangement. As you are aware, there has been no opportunity since that date to take up this proposal for discussion in the Group. I intend, therefore, to proceed today with an explanation of the main suggestions made in the New Zealand paper and of the thinking which lies behind my Government's approach in this matter. I hope that it will then be possible to take up any points of clarification which delegations may wish to seek and also to obtain some general views from other participants on the degree to which the New Zealand paper is acceptable as a basis for further discussion.

Before dealing with the detailed contents of the paper there are two general points I wish to make. First, it may be asked by some of our partners why it is really necessary to proceed to the conclusion of a general arrangement. Some may believe that it would be possible to achieve the objectives of the Kennedy Round in the dairy sector through a series of offers relating to protection at the frontier thus creating improved conditions of access to various markets. Perhaps it would be timely to recall that the decision by Ministers in 1963 to have this group established was taken precisely because some form of general arrangement was considered to be desirable. In any case, the need for a global approach should be apparent from the technical examination which we have already carried out of the nature of world trade in dairy products.

The conclusions which emerged from the technical discussions we have had may seem fairly obvious. It was not expected that anything particularly original would emerge; perhaps nothing very original ever does emerge from a confession; nevertheless what does emerge must be everlastingly interesting. Certainly, it has been of value to have the information quantified in this manner for the countries which are principally concerned in trade in dairy products under the General Agreement. The following appear to be the most obvious conclusions:

1. In most countries there is some measure of support or assistance to dairying. This varies in form and quantity but in the case of the most important importers or potential importers it is considerable.
2. There are also fairly severe limitations to access to many markets.
3. Consumption per head varies considerably being influenced by a number of factors. In many countries it seems that the level of support is so high as to have a deterrent effect on consumption.
4. There is production surplus to domestic requirements at these levels of consumption and this is frequently subsidized on world markets.
5. While there were unfortunate gaps in the information on projections such material as was supplied suggest a possible surplus situation in future years. There is a tendency for price support and other forms of assistance to be increased and even in some countries which have reached something of a state of balance between supply and demand there appears to be movement to expand production and thus remove the need for imports.

The net effect of these various factors is that we face the choice between anarchy in world trade and some form of international co-operation which will introduce stability. It is our hope that through these negotiations it will be possible to define a basis for international co-operation in the dairy field and unless this is possible we do not think that the objectives laid down by Ministers can be fully achieved. The New Zealand delegation is of the view that the outline of our proposals for a general arrangement for dairy products which we tabled last September might form a convenient basis for a discussion as to how this situation might best be handled in the GATT.

Before entering on the substance of the proposal, I should like to make one further general comment. This is that New Zealand does not look for a static solution - by this I mean one which would simply freeze the pattern and volume of world trade at a given time and preserve it for all time. Not only are there dynamic changes under way in the technological field and in farming practices in the majority of countries but also traditional exporters such as New Zealand are compelled for economic reasons to look for growth in commercial markets. Quite apart from the question of lack of alternative resources, surely we cannot ignore completely the doctrine of comparative advantage in a world where population is outstripping the rate of economic development.

It is necessary to ensure, therefore, that individual governments, in taking measures to safeguard the position of their own producers, not only respect the legitimate interests of efficient exporters by avoiding any disruption to existing trade, but also go one step further and guarantee a development and expansion of world trade as defined in the objectives of these negotiations. This can probably only be done if we adopt commitments on protection at the frontier or on the level of internal support - or conceivably a combination of both - which enable future adjustments in the dairy sector to move over a period of time in the one direction, namely, the reduction of high cost inefficient production and the establishment of a truly competitive basis for world trade. This would after all benefit every country around this table, for obvious economic reasons.

Once again we are looking for trading stability while this process of change goes on. To achieve this we need an arrangement which will endure and which will not be upset through sudden fluctuations in the years ahead, some of which we may already be in a position to predict. In short, we need to take account in our discussions of all the elements which can have a bearing on the production, consumption and trade of dairy products.

Having made these general comments, I should like to turn now to the contents of the New Zealand paper. In the introductory paragraphs it will be seen that we have referred to the procedures which were laid down for the Dairy Group and the objectives which were defined for the proposals and offers to be submitted by participants. We also state that the negotiations aiming towards a general arrangement are only one aspect of the Kennedy Round. Perhaps I should make it clear that New Zealand sees the general arrangement as consisting of a series of commitments on a multilateral basis subscribed to by all participants - commitments of a type which cannot be substituted through offers made in other sectors. In other words, it is largely a self-contained exercise. On the other hand, we also believe that increased trading opportunities can be created by individual participants through specific offers on access and New Zealand would be prepared to provide reciprocity for such concessions through the offers which it has already tabled in the other sectors, and through the normal procedures laid down for the negotiations.

The next section of the New Zealand paper deals with the products to be covered during any negotiations. We have referred to the agreement already reached in the Group in document TN.64/DP/4, namely that "the negotiations should relate initially to butter, preserved milk and the principal cheeses entering into international trade". From the production point of view it is of course the

global output of liquid milk which is relevant. Clearly, however, it is not possible to draw up arrangements relating to international trade unless we do so in terms of the principal products derived from liquid milk. Furthermore, if we do this, it will not be sufficient simply to take that product which at present seems to create the greatest difficulty, namely butter, because we would then run the risk of diverting dairy production into other forms, so that in solving one problem we would only create a series of further problems. On the other hand, the total range of dairy products traded is so great that our task would be impossible if we do not adopt a fairly selective approach. It will be for consideration of the Group whether discussions on preserved milk should cover all the various forms of this product; similarly with cheese, we are left with the problem of definition when we refer to "principal cheeses". It is the tentative view of the New Zealand delegation that it would be at least necessary to take into account the hard cheeses which are traded internationally, e.g. Cheddar, Emmenthal, Gouda and related varieties. There is something of a precedent for the types of cheese which might be included in the binding the European Economic Community has with some contracting parties.

Although such a selective approach may be necessary in the discussion of a general arrangement we have included in this section a reminder that the offers to be tabled should cover all dairy products. We have also pointed out that the type of arrangement which may be appropriate for one product might not be applicable to others, particularly if we consider the different pattern for commercial markets for butter on the one hand and skim milk powder on the other.

Section C of the paper in discussing agricultural policies contains a reiteration of the view that all relevant elements of national dairy policies should be up for negotiation. We have stated that we do not exclude the possibility of our partners coming forward with a commitment on the total effect of such policies. Because of variations in the conditions of the dairy industry and commercial markets in different countries it is quite understandable that there should be some variation in the form of commitments proposed by various parties. I have already stated the need to look to a process of adjustment of national dairy policies over a period of time in accordance with certain agreed principles. It may be that in future discussions the Group will find it easier to proceed if as a first step these principles are enumerated - a task which will have to be performed in any case when we come to the drafting of any preliminary text. For our part, we stand ready to embark on the formulation of agreed principles as soon as the Group is ready for this task.

It may be of course that participants will prefer to see the formulation of agreed principles emerge subsequently in the course of our discussions. We ourselves would not reject a pragmatic approach at this stage; we would simply remind our partners that in broad terms the objectives which we are working towards have already been laid down by Ministers.

In this connexion, I should reiterate that for New Zealand the key to the negotiations is indeed the extent to which they lead to the "development and extension of world trade". This is the theme of the next section of our paper, dealing with access. For obvious reasons, in the case of countries which are not primarily exporters, commitments on internal policies of the type to which I have referred would only be relevant to the framework of the negotiations if they create increased access. For some such participants a minimum offer to improve access on the frontier without any deliberate adjustment of support measures may be the most logical contribution for them to make to the overall arrangement. Because of the variations in the circumstances from country to country, New Zealand holds the view that the initial discussion of offers in this category, could best be carried out on a bilateral basis. At a later stage however the cumulative result would have to be assessed in the framework of the negotiation of a general arrangement.

Under the heading of international trade, we have discussed the possibility submitted to earlier meetings of the Dairy Group that a world reference price should be adopted and that this should constitute a minimum price below which parties to any agreement would undertake not to offer dairy products on the international market. While agreeing with the proposition that the prices received for exports of dairy products should not fall below the level which represents a remunerative return for producers we nevertheless see some difficulty in adopting a theoretical price of this type. There is, for example, wide differentiation in the prices traditionally received in various markets. Also because of the vulnerability of the trade to sudden fluctuations (usually for climatic reasons) some allowance is to be made for a range of prices to operate from year to year and in different markets. Also there are some differences in quality and taste which vary from time to time and make precise price fixation difficult. On the other hand in relation to the need to regulate the level of export subsidization, the specific reference price may have some relevance for those countries whose policies are based on price regulation.

This problem of export subsidization is, we believe, one of the central issues which will have to be dealt with in an international arrangement. Our ideas are set out in Section E of the paper but I feel I should perhaps go into these in more detail here. As a starting point we claim that commitments whether on national policies or on improved access will be meaningless if countries are free to export at low prices whenever they feel so disposed. It is in fact our view that the ultimate objective must be the complete elimination of this practice. In working towards this, we consider that agreed measures should be adopted to control the degree of dumping and subsidization and that these should be derived from the principles contained in Article XVI of the GATT. We accept that this problem can be tackled either through commitments by exporting countries or through a system of control at the frontier of the importing country. The action taken by the United Kingdom Government is an

attempt to apply the latter method but there is some doubt in our minds as to the feasibility of adopting similar methods in a whole series of other markets. We have pointed out in our paper the particular circumstances which set aside the British market for the purpose of this exercise. It is of course the major international market and for the smaller markets we consider that it would be easier to reach agreement on the basis of multilateral commitments by exporters.

Our suggestion is that participants should agree to a standstill on export subsidization as at the date on which offers were tabled last year. When we talked of a standstill we meant a containment both of the level of subsidy per unit of weight and the restriction of the application of the subsidy to that volume of exports entering into trade during a representative period leading up to 16 September 1965. In other words, we are attempting to give binding application to the reference in Article XVI of the GATT which states that no export subsidy "shall be applied in a manner which results in that contracting party having more than an equitable share of export trade". We are fully aware that the implementation of this proposal will require extensive discussions in the Group among those parties affected. In particular we would not wish to see the application of a cut and dried formula giving rise to anomalies in particular cases and we stand ready to discuss any immediate problems which other delegations may have with the essence of our proposal.

I should now like to go on to the question of consumption which occupies relatively little space in our proposal but which is nevertheless a central issue. For example, any failure to expand internal consumption in the main producing countries at the same rate as production has the effect of releasing further supplies into commercial trade. Similarly a decline in consumption even where production is static can have far-reaching effects. Our thinking on this question has developed to the point where we believe that a general arrangement would probably be unbalanced if it did not include some form of specific commitment either to maintain consumption, or, in those cases where it is depressed by high internal price levels, to stimulate increases in consumption.

Having put forward the outline of a general arrangement covering improved conditions of access and a limitation of export subsidies, as well as the commitment on consumption to which I have just referred, it is necessary to allow for an accumulation of surplus production for which there is no commercial outlet. In fact the high probability of surplus production in the years ahead has already been plainly demonstrated during our technical discussions. With better forecasting methods, we would know more about the possible size of the surplus. We believe that the inclusion of measures for non-commercial disposal of such surpluses will be an essential element of any general arrangement. Furthermore New Zealand declares itself ready and willing to participate in any such arrangement. To come straight to the point it is quite obvious that the sharing of the financial burden will be the key issue in drawing up any programme

of this type. Our suggestion is that an equitable basis for this would be one which was directly proportional to the level of production in participating countries or, if it is preferred, the number of cows in the dairy herd. Once again, however, further discussion on this point would be premature until other delegations have had the opportunity to express their views.

There are of course already surplus disposal operations which involve dairy products. The two main ones are the World Food Programme and the United States P.L.480 disposals. The question therefore arises of the relationship between these operations and the New Zealand proposal which raises two issues:

- (a) the coverage of the proposed scheme to be administered by the International Dairy Council;
- (b) what kinds of procedures would need to be developed to avoid duplication, overlapping and conflict in terms of both resources and of operations.

On the first point you will note that it is suggested that present bilateral programmes could be excluded except to the extent that it was otherwise agreed. We have in mind that the United States would no doubt wish to continue to operate its own food aid programme. Also there is the World Food Programme which now has well-established procedures and is gaining increasing experience in making the best use of surplus foodstuffs in helping less-developed countries. Assuming that dairy products remain an important component of the United States food aid and the World Food Programme, our conclusion is that any scheme administered by the International Dairy Council would not cover all dairy surpluses but should be limited at least initially to a relatively modest quantity of dairy products which could be equivalent to say 20,000 tons of butter a year. In mentioning a figure of 20,000 tons of butter equivalent of dairy products we are not suggesting of course that we estimate that surpluses which exceed those disposed of under existing programmes will necessarily be of this order every year. There are too many variables influencing the volume of dairy surpluses each year and the total level fluctuates. The 20,000 tons (or whatever quantity was finally decided) would be a ceiling and not a commitment for this quantity to be drawn from participating countries each year.

The second point concerning procedures to avoid duplication and conflict with existing schemes is one on which we have some preliminary thoughts but would of course call for extensive discussion and exchanges of views before a satisfactory set of procedures could be established. Our view at this stage is that the consideration could be given to the International Dairy Council distributing the surpluses it acquired through the World Food Programme. One way to do this would be for the International Dairy Council to be regarded as a

national government and to pledge a commodity contribution. This could be drawn upon by the World Food Programme as required with the International Dairy Council making the necessary purchases. We do not foresee any insuperable difficulty with making suitable procedural arrangements with the World Food Programme particularly if it did not result in any reduction in the total resources available to the World Food Programme and the International Dairy Council did not propose to tag its pledge in any way or endeavour to interfere in project selection or implementation processes of the World Food Programme.

If such an arrangement was accepted it would also avoid any duplication and conflict between the International Dairy Council and existing bilateral programmes. Whilst we do not know the extent to which the United States authorities take account of World Food Programme projects in determining their own bilateral programmes, no problems seem to have arisen in ensuring co-ordination and avoidance of overlapping. It may be that bilateral programmes involving dairy products might be developed by other countries in the future. This could be met by a requirement that the International Dairy Council be informed in advance of the proposed bilateral programme and for member countries to have an opportunity to consult together on the proposal if desired.

I now come to the last section of the paper submitted by New Zealand; this concerns institutional aspects. The type of general arrangement outlined by New Zealand would of course be incorporated in the formal agreement drawn up on a multilateral basis at the conclusion of the Kennedy Round as a whole. As such it would be legally binding on participants in the same way as any other exchange of concessions negotiated under the GATT. To this extent the normal machinery of the General Agreement would be sufficient to ensure that the provisions adopted for trade in dairy produce were being respected.

There are however certain additional tasks which would arise from the adoption of a general arrangement. These are largely of an administrative nature, and we have listed on page 4, of our paper, as examples, the following:

- (a) review of world dairy situation;
- (b) review and implementation of standstill on export subsidies;
- (c) administration of arrangement for non-commercial disposals.

Doubtless there would be occasions when the performance of these tasks would require an element of policy guidance, and for this reason we have envisaged the establishment of a body on which all participating countries would be represented. We suggest that this be in the form of an International Dairy Council, to be convened periodically, serviced by a small permanent secretariat. I do not wish to take this point any further at the present time, but would simply place on record our view that when the pattern of a general arrangement becomes clearer, this is one aspect which will need to be fully discussed in the Group. I should also refer in passing to certain proposals which have been put forward in producer circles, in the IFAP, and point out that any institutional ideas developed under the aegis of GATT should at some stage be linked with the proposals developed in IFAP. The aim would be to avoid any duplication in the institutional field.

I must apologise for having talked at some length on the New Zealand proposal. It will be seen that on many points a development of our ideas in greater detail will have to await the response of other participants. I could sum up by referring to the main topics covered in this statement, but as the text of the New Zealand paper is available to the Group, such a further demand on the patience of delegations is I think unnecessary.