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Multilateral Trade Negotiations

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Sub-Group on Dairy Products

STATEMENT BY THE REPRESENTATIVE OF AUSTRALIA ON 23 JUNE 1975

The Dairy Sub-Group has been established as a negotiating group to deal with all the elements relevant to international trade in the dairy sector.

Working in conjunction with the Tariff and Non-Tariff Measures Groups the task of the Sub-Group is to negotiate arrangements which fulfil the objectives of the Tokyo Declaration i.e. arrangements which lead to the progressive dismantling of obstacles to trade and which improve the framework for the conduct of world trade.

Trade in dairy products is especially complex given the various options for using milk, the inter-relationship of products and by-products and the substitutability of various products. We recognize that particular problems relate to individual products but the close inter-relationship between products and production decisions could enable solutions in one area to be negated by other actions. Australia therefore is of the view that no milk derivative should be excluded from the work of this group.

The international market for manufactured dairy products is particularly sensitive to changes in the volume of supplies available to enter world trade. Since trade accounts for only a small part of total world production relatively small changes in supply in milk output in large producing regions such as the EEC, United States and Eastern Europe are frequently reflected in very substantial changes in traded supplies of dairy products. The sensitivity of world dairy markets has been aggravated by the United Kingdom's entry into the EEC with the result that the remaining world market for butterfat is much smaller and thus more sensitive to change in traded supplies.

The market for dairy products has undergone a substantial change even in the last 12 months from a situation of short supply, high prices and low stocks to one of slackening demand, falling prices and high stock levels for most products. The main reasons for the change are related to recessionary conditions in importing countries

which have severely restricted purchases coupled with increased supports in major producer countries - EEC, United States and Canada - which on the whole have lead to increased production and reduced consumption in these countries. Difficulties are being experienced in disposing of butter, skim milk and casein on world markets with principal importers running down stocks or deferring contracts.

The Dairy Industry is one of Australia's most important rural industries. About one third of butter production and as much as two thirds production of skimmed milk powder is exported to world markets and in all 36 per cent of total milk output was exported in 1973/74. Our exporters in the last few years have had to adapt to a largely new set of circumstances following the effective closure of their major traditional market, the United Kingdom. Australia is one of the very efficient producers of dairy products in the world and the Australian Government has acted positively to improve efficiency. Under a two-year plan the Australian Government is phasing out direct financial assistance geared directly to output. The 1974/75 payment of bounty will be the final payment to the industry. The Government's export bounty on processed milk products containing butterfat will cease at the end of this month after being in operation for over ten years. At the same time the Government is financing a substantial Dairy Adjustment Programme to make the industry even more efficient and competitive. It is important to note that it is not only importing nations which face difficult problems of policy adjustment in the dairy sector.

For a variety of reasons almost all governments give support to dairy industries of varying size and efficiency. Perhaps more than in any other area of agriculture countries have developed individually tailored systems of protection and support for producers. The liberalization of trade in dairy products will not be easy and the targets will need to be realistic. What we seek is firm action directed to liberalizing and expanding international trade.

We look forward in the work of this Sub-Group to constructively examine proposals from all major importers and consumers. In particular we would like to hear the views of the EEC, Japan, United States and Canada on approaches for the modification of their dairy import régimes so as to fulfil the liberalization objectives of the Tokyo Declaration. Australia is seeking in these negotiations action on frontier measures which will significantly enhance the opportunities for reasonable competitive access for efficient exporters - for reasonable, continuing opportunities to sell, for more predictable conditions of trade and for fair and reasonable prices.

The major markets impose formidable barriers including tariffs, tariff quotas, State-trading arrangements, quantitative restrictions, price and levy arrangements, shortfall buying policies etc. which add up to an unsatisfactory situation affecting the legitimate, indeed even the moderate, trade aspirations of traditional, efficient producers and exporters.

The EEC has a complex frontiers régime which effectively isolates the domestic market from competition from third country suppliers. In Japan all dairy products with one exception are subject to a substantial tariff and to restrictive quotas. The United States imposes both tariff and quantitative import restrictions. Canada has similar measures and recently "updated" its quantitative restrictions on cheeses.

In addition there are a large number of smaller markets which are important to Australia which apply duties and taxes, quantitative restrictions and other measures to restrict or prevent reasonable competitive access.

These trade barriers both tariff and non-tariff barriers need to be examined and dealt with if the Sub-Group is to make a worthwhile contribution to the success of this round of trade negotiations.

Australia is also seeking in these negotiations arrangements which lead to the progressive elimination or containment of trade distorting practices such as export subsidies and credit selling and unreasonable application of administrative measures such as dumping and countervailing practices. We will also be pursuing aspects of these questions in the Subsidies and Countervailing Duties Sub-Group. We seek practical arrangements which will ensure that the disposal of surpluses do not prejudice commercial trade flows.

Thirdly Australia looks to liberalization of trade in dairy products at a level of price that will bring about an expansion of trade through increased consumption while still affording a remunerative return to economic producers. Excessive price fluctuations currently characterize international trade in dairy products. There are already a number of plurilateral arrangements whose objective it is to secure more stable trading conditions. As part of these negotiations we will need to examine these arrangements to see whether they are suitable arrangements, whether they can be improved upon or whether some new approach perhaps wider in scope is feasible.

A major aim of such arrangements would be to reduce excessive price fluctuations resulting from the recurring tendency to surplus milk production. Any such arrangements will naturally need to be consistent with the overall objective of liberalizing and expanding trade and cannot be a substitute for removing existing obstacles.

At the March meeting of the Agriculture Group the representative of the EEC Commission briefly referred to an approach to the negotiations on dairy products based on a framework inside which commitments would be implemented in relation to price restraint. He mentioned that they envisaged regulations to be complied with by members of an international agreement at the maximum and minimum levels of a price range. Australia looks forward to exploring with the EEC its detailed thinking on this approach. We wonder in an international situation of floating exchange rates and differential rates of inflation just what form of price mechanism would be most practicable. On the one hand there is the prospect that price arrangements might be too rigid and therefore susceptible to break down and on the other if they are too flexible they will not introduce enough discipline on disruptive practices. This is an aspect which we can usefully explore in the meetings of the Sub-Group.

In addition Australia is seeking in these negotiations wider forms of international co-operation in the dairy sector to provide a framework for greater mutual understanding of domestic and trade policies.

These are the four major elements which Australia considers should be addressed in this Sub-Group as part of comprehensive negotiations on dairy products in the Multilateral Trade Negotiations.

The purpose of this first meeting is to initiate the substantive phase of the negotiations. As a tentative work programme Australia proposes:

- (a) that delegations indicate in detail their intentions and negotiating approaches as soon as possible;
- (b) that the Sub-Group undertakes an examination of the impact of all tariff and non-tariff obstacles to trade with a view to developing in conjunction with the Tariff and Non-Tariff Measures Groups negotiating rules and procedures for the liberalization and expansion of international trade. To facilitate this work we ask that the secretariat prepare a summary of import and export barriers and trade distorting measures which influence international trade;
- (c) that the Sub-Group undertakes an examination of ways of improving the international framework for the conduct of world trade including improved forms of international co-operation. Here we would also ask the secretariat to circulate a background note of existing international arrangements in the dairy sector.