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ANALYSIS OF THE CHARACTERISTICS, OF THE STRUCTURE AND THE PROBLEMS OF WORLD TRADE IN DAIRY PRODUCTS

Statement by the Representative of the United States
on 13 October 1975

It was agreed at our first meeting in June that the Dairy Sub-Group would carry out an analysis of the specific characteristics of the structure and problems of world dairy trade including the direct or indirect impact of trade barriers and trade distorting practices. To assist in our task, my delegation would like to outline the problems confronting trade in dairy products.

World trade in dairy products takes place largely between four major trading areas: the European Community, other Western European countries, North America, and Oceania. A number of factors have influenced, either directly or indirectly, the structure of trade in dairy products that is today characterized primarily by an extraordinary degree of government intervention. Most of these factors are well known. A not necessarily exhaustive list would include:

- the concentration of production and consumption in only a few developed countries;
- the small percentage (about 4 per cent) of world milk production entering into world trade (as dairy products) and the consequent extreme fluctuations of export supplies resulting from small shifts in domestic production and/or demand in major producing countries;
- the self-sufficiency objectives of major importing countries, particularly in relation to fresh fluid milk which is too perishable to be traded widely, and concerning which there are special domestic hygienic concerns;
- the fact that butter and non-fat dry milk are joint products with different short-term and secular demand characteristics;

- the link between beef and milk production in Western Europe where dual-purpose breeds constitute the basis for both industries;
- the preferential trading patterns that developed as part of the political history of key major trading countries, and recent changes in those patterns.

Countries have cited many of these factors in justifying the trade measures they have adopted in order to maintain stable markets and adequate supplies. These measures have proliferated to the point that it would now be difficult to identify a commodity group where the structure of world trade is more heavily influenced by government measures than dairy products. Exports are often governed more by the degree of direct and indirect government subsidization than by considerations of economic efficiency or comparative advantage. Imports are generally allocated by quotas or licensing, rather than by the operation of the market. Some countries' import restrictions serve primarily to afford protection from subsidized imports while other countries' restrictions would protect high domestic price support programmes even in the absence of subsidized competition. Some countries limit imports but, at the same time, allow a relatively stable degree of market access while pursuing policies which allow domestic production to adjust to changing market needs; other countries have variable import levies which provide unlimited protection to domestic production.

Concurrent with this extraordinary degree of government intervention, international co-operative efforts have been undertaken by certain countries, and these efforts, too, have influenced - indeed have become part of - the structure of international dairy trade. Instead of allowing world prices of dairy products to adjust significantly downward as conditions of oversupply occurred, and thereby encourage trade and consumption increases, these countries have attempted to set minimum export prices. The predictable results have been that surpluses continued (except when affected by economic developments largely outside the dairy sector) and substantial amounts of dairy products were diverted into domestic livestock feeding, social programmes and foreign food aid.

One aspect of the surplus problem can be illustrated in the case of butter. Historically, the United Kingdom accounted for two thirds of world butter imports, virtually all of which originated from the relatively low-cost, pasture-based production of the Oceania region. Periodic butter surpluses in other countries were generally managed (through domestic programmes and foreign food aid) without major disruption of this major segment of world trade. However, with the accession of the United Kingdom into the European Economic Community, EC butter surpluses are being channelled into the United Kingdom while Oceania suppliers are left to seek alternative outlets or to otherwise adjust to the gradual loss of

the principal world export market. Except where offset by protective measures, this development means increased import competition pressures on other major trading countries. The current special arrangements permitting UK imports from non-EC sources are due to be phased out by 1977 or 1978.

In general, the factory utilization of milk is an important factor in the world oversupply problem of certain dairy products. The following table summarizes percentage changes in milk production and utilization in major producing regions between 1964 and 1975:

| | Production | Utilization as | | |
|----------------|------------|----------------|---------|--------|
| | | Fluid | Factory | Feed |
| North America | - 5.1% | - 5.0% | - 4.2% | -28.2% |
| Western Europe | +13.2 | - 0.9 | +27.2 | -13.4 |
| Oceania | + 0.1 | +14.7 | - 3.4 | +46.8 |
| TOTAL | + 5.5 | - 2.4 | +13.3 | -14.0 |

This table shows that since 1964 milk production has declined by about 5 per cent in North America, increased only slightly in Oceania but was over 13 per cent higher in Western Europe. It should also be noted that factory production of dairy products declined by 3-4 per cent in North America and Oceania while increasing about 27 per cent in Western Europe during this same twelve-year period.

In summary, the United States feels that our discussion this week should focus on the disruptive trade practices of countries, rather than the domestic programmes that lie behind these practices. My delegation feels that it is the degree to which most major trading countries interfere with international trade in dairy products, and the adverse combined consequences of this interference, which is distorting world dairy trade.