RESTRICTED

GENERAL AGREEMENT ON TARIFFS AND TRADE

MTN/DP/W/13
16 October 1975

Special Distribution

Multilateral Trade Negotiations

Original: English

Group "Agriculture"
Sub-Group on Dairy Products

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

Statement by the Representative of Canada on 13 October 1975

The Canadian delegation has been asked, along with other delegations, to contribute to "an analysis of the specific characteristics, of the structure and the problems of world trade in dairy products, including the direct or indirect impact of trade barriers and trade distorting practices, taking into account the wide diversity and interchangeability of products derived from milk".

In replying to this invitation perhaps the best contribution that the Canadian delegation can make is to briefly describe the structure and characteristics of the dairy sector in Canada; relate this analysis to the problems in world dairy trade as seen from a Canadian perspective; and then to outline the conclusions that we draw from this analysis.

Structure and characteristics of the Canadian industry

The primary dairy sector in Canada plays a key rôle in Canadian farm production, both nationally and regionally. It provides a livelihood for about one quarter of all farmers in Canada and accounts for about 20 per cent of total farm cash receipts.

At the beginning of 1975 the Canadian dairy sector comprised about 84,000 producers. Of this total, about 19,000 were fluid milk shippers, 35,000 were industrial milk shippers and 30,000 were shippers of farm separated cream. Dairy production is centred in Central Canada (Quebec and Ontario) where three quarters of production is concentrated.

Dairying is based on a mixture of forage/concentrate feeding with concentrate feeding particularly important during the relatively long winter. Costs have increased rapidly in recent years, for example, second quarter cash input costs in 1975 were 68 per cent above the 1970-72 average.

Over the past decade a considerable contraction and restructuring of the industry has taken place. The total number of milk producers fell from about 190,000 in 1966 to 84,000 in 1975. This decline in the number of dairy farms was accompanied by a shift from farm separated cream production to fluid and manufacturing milk production. However, notwithstanding these significant adjustments the dairy sector continues to face serious economic and social problems. The difficulties in finding alternative use for resources, particularly human resources characterized by a high age structure and a generally low level of education, and the absolute number of producers involved, make the adjustment process particularly complex and difficult.

Canadian milk production in 1974 was 16.7 billion pounds. About 60 per cent of this total was utilized in dairy factories with the remainder going for fluid sales and uses on farms. The primary dairy industry supports a processing sector of some 590 plants with a gross output value of $1.5 billion annually and an employment of 30,000. Over the years, while fluid use has commanded a growing proportion of market supplies, total consumption of all milk and milk products, measured in butterfat terms, has declined. Significant increases in per capita cheese consumption have been more than offset by a decline in butter consumption. More recently there has been a noticeable shift away from whole milk to low fat milk (2 per cent B.F.) consumption.

In trade terms, until 1970, Canada tended to be largely self-sufficient (as measured in butterfat). Exports of cheddar cheese and skim milk powder were offset by specialty cheese imports. Between 1970 and 1974, however, Canada was a small net importer of dairy products. In 1973 and again in 1974 net imports of dairy products were equivalent to about 10 per cent of domestic milk production.

Government dairy policies have been designed to ensure orderly marketing and continuity of supplies. Price support and stabilization measures have been backed by a centrally regulated supply management system, designed to balance overall output with needs. Canada is one of the few countries which has adopted a policy of producer co-responsibility for surpluses. Under the supply management system over-quota deliveries are subject to a penalty deduction from the market price of milk. The current penalty on over-quota deliveries is $4.00/100 lb. ($8.82/100 kgs.) of milk 3.5 per cent butterfat. Within quota milk is eligible for a deficiency payment of $2.66/100 lb. ($5.86/100 kgs.). However, even in this case producers are subject to penalties if supply exceeds demand. At the present time within-quota milk is subject to a levy of 65¢/100 lb. in order to help finance the cost of an export equalization fund.

Traditionally fluid milk marketing has been regulated under provincial policies, while Federal policy has been directed towards milk and cream for manufacturing purposes. However, since deliveries of fluid milk shippers in excess of fluid market requirements are utilized as manufacturing milk, the Federal

Government has entered into an agreement with all provinces in order to limit overall manufacturing milk production to market requirements. Currently the market sharing quota for total manufacturing milk production is 10 billion pounds. As noted earlier, milk production in excess of this amount is not eligible for deficiency payments and is in fact heavily penalized.

Problems in dairy trade

In the Canadian view, the problems in the world dairy sector reflect both the basic characteristics of the industry itself as well as the effects of governmental policies on production and trade.

1. Market instability

As the Canadian delegation noted at our last meeting, a principal feature of international dairy trade for many years has been its volatile and unstable character. We moved from surpluses and low prices for most dairy products in the late 1960's to relative shortages and rising prices in the early 1970's. In 1973 we saw an increase in global dairy trade of about 43 per cent over 1972, but a decline in 1974. In 1975 we are again faced with rapidly mounting stocks of skim milk powder and declining prices.

One source of market instability lies in the fact that dairying has a slow production adjustment capability. By and large alternative opportunities for utilizing resources engaged in dairying are limited. Thus resources tend to be "locked into" dairying and it is difficult to make adjustments to changing economic circumstances. The recent rapid inflation in costs, experienced in most developed countries, has compounded normal difficulties of production adjustment. Efforts to pass onto consumers the higher costs of production have tended to have a dampening effect on demand.

A second source of market instability lies in the marginal nature of dairy trade. In terms of milk equivalent, total global exports of dairy products in 1973 amounted to barely 10 per cent of world production. The marginal nature of trade reflects to a considerable extent the fact that in most developed importing countries, domestic dairy industries have developed to ensure essential supplies of fluid milk, and perishable milk products to consumers. Because of its perishable nature, when production of fluid milk extends beyond immediate needs, the only outlets are in manufactured dairy products, particularly butter and skim milk powder. Variations in domestic milk production can have significant implications for international trade. It has been estimated, for example, that in Canada's case a variation of 1-2 per cent in total milk production results in increases in manufacturing produce supplies of up to 10 per cent. In short, even moderate variations in milk supply, can have unexpected and destabilizing effects on import needs and export supplies in individual countries.

2. Impact of national policies

Governments have sought through national dairy policies to counter some of the inherent difficulties of the industry. More than any other sector, the dairy industry in all major importing and exporting countries is characterized by a high degree of government intervention. Virtually all developed countries have implemented domestic price support and income stabilization policies for their dairy sectors.

The effects of these policies on dairy trade have manifested themselves in two ways:

1. To a large extent domestic stabilization policies have been implemented by price support mechanisms which have required the ancillary use of border controls, whether to prevent the undermining by imports of domestic price support levels or to ensure priority for the marketing of domestic supplies. The end result has been that world dairy trade has been continuously subject to more non-tariff measure than any other agricultural sector. The lack of secure terms of access for the major competitive exporters has had a detrimental effect on their production, investment and farm incomes. While there would appear to be a limit to the extent production could be expanded in efficient exporting countries to meet an unrestricted expansion of import access for dairy products, the present situation is such as to inhibit the optimum utilization of resources in efficient exporting countries.

2. Dairy income stabilization and price support policies have tended to result in the periodic creation of burdensome surpluses which have been disposed on international markets through various forms of export aids. It is not always a question of the levels of domestic support encouraging excess production in total. In some cases it is the fact that the mix of policies brings forth inappropriate proportions of fats versus non-fat-solids. At the moment there is too much skim milk powder. Two years ago it was excessive butter stocks. Governments have found it difficult to "fine-tune" their dairy policies to the extent necessary to balance supply with market requirements.

Faced with burdensome surpluses governments have tended to take the easiest way out. Export subsidization has led other countries to adopt offsetting import restrictions or to provide competitive export aids in order to protect traditional markets. The present skim milk powder situation is a prime example of excess production leading to competitive surplus disposal efforts, costly to all parties.

Conclusions

From the Canadian perspective the analysis of the characteristics and problems of dairy trade lead to the same conclusions as we advanced in our last statement to this group, namely the negotiations should deal with the three interrelated issues of import access, export subsidization and market instability. In addition, there appears to be a definite need to develop a framework for improving the international co-ordination of national policies as they relate to international dairy trade. In short, the question we need to address is how to find a multilateral basis for equitably sharing the burden of adjustments needed to secure the stable expansion of international trade in dairy products.