NEW ZEALAND welcomes this opportunity to consult with contracting parties on a matter which affects New Zealand's economic interests so closely. We particularly appreciate that so many of the countries interested in this problem have accepted the invitation to consult.

We attach great significance to this consultation for two major reasons. In the first place the finding of an equitable and satisfactory solution to the serious situation confronting one of New Zealand's four main export products is important to us for social and political as well as economic reasons.

In the second place, this is the first time that the provisions for joint action under Article XXV commended by the Working Party on Commodities at the thirteenth and fifteenth session, have been invoked to permit the examination of a specific commodity situation. In the spirit of joint and co-operative action envisaged in that Article, it is not our primary aim on this occasion to ask that this or that specific rule be enforced; nor do we expect the CONTRACTING PARTIES to allocate blame for the present butter marketing difficulties to this country or that country. We are rather seeking in a pragmatic way the co-operation and help of contracting parties and other interested countries in finding a solution quickly to a particularly difficult situation which is not one which we on our own can do much to rectify. Needless to say we shall be anxious that any solution should be one which preserves the basis for an expansion of world trade and the efficient use of world resources.

It is often said in New Zealand that the GATT in practice is primarily a club of industrial nations and that the benefits it confers on agricultural countries are somewhat marginal. This view is reinforced by the fact that in a number of cases the special difficulties of industrial countries as regards agriculture have been recognized. I feel sure that, especially since such recognition raises problems for us as an agricultural exporter, the success or failure of this experiment in bringing before the CONTRACTING PARTIES a matter of considerable importance to our economy will have a strong influence on the attitude of the New Zealand public to the General Agreement.
As we have already explained to the Council, our problem - and, I would imagine, that of other dairy producers - lies in the fall in butter prices on the United Kingdom market, which is virtually the only significant market for butter in the world not affected by quantitative restrictions.

Between September 1957 and May 1958 the London price for New Zealand butter fell from 310/– a cwt. to 206/– a cwt. The circumstance of a dry season in Europe in the following year - which turned out to grant us only a temporary reprieve - enabled the price to rise to 410/– in November 1959. This price was held for only three months. By April 1960 it had fallen again to 290/– and, after a brief rise between June and August, it resumed the downward tendency until by March of this year the price had fallen to 250/– where it has since remained. Prices of butter exported by other countries followed a broadly similar course. The present price when compared with prices ruling for butter in almost all countries cannot be regarded as economic even for New Zealand.

As far as the overall marketing position in the United Kingdom is concerned, the proximate reason for the depreciation of prices is the pressure of supplies on the market and the existence of substantial stocks. For the three years 1955-1957 United Kingdom imports amounted to an annual average of 342,000 tons, whereas for the three-year period 1958-60 average annual imports amounted to 411,000 tons. In recent months milk production in most European countries has expanded by comparison with the same period a year earlier. This has largely been due to the generally mild winter in Europe and abundance of feeding stuffs. As a consequence of the rise in milk production, butter production has also expanded.

The other factor in market uncertainty is the existence of large stocks of butter in some countries. On our information stocks in Europe (including the United Kingdom) are considerably above the level at this time last year and almost double the stocks held at the same date in 1959.

The prospects for 1961 seem to be for a level of supplies to the United Kingdom market some 5 per cent higher than in 1960. The current year's supplies might well exceed arrivals in the peak year of 1958, when the price of New Zealand butter fell to 206/– per cwt. The dangers for the market lie particularly in the months immediately ahead with the seasonal increase in production in Europe now making itself felt. With the paucity of markets for butter elsewhere, there is a real threat that the London market will become so overloaded that, in the absence of remedial measures, a further deterioration in the position could well occur.
In considering this question of supplies coming on to the London market, New Zealand has observed with considerable concern that exports from a number of countries are made with the assistance of export subsidies and that in almost all cases a greater or lesser degree of dumping, as defined in Article VI of the General Agreement, appears to be present. Some of these activities may not, of course, be contrary to the strict requirements of the GATT, but the fact remains that such action is an important element in the present condition of the butter market in the United Kingdom. Indeed a number of countries appear to have on occasions gone so far as to link their export subsidy policy with a policy of deliberately pricing their product at a certain margin below New Zealand's supplies. Policies such as these also contribute to the instability of the market.

I would draw attention here to the obligations contained in Article XVI of the General Agreement and point out that although the provisions relating to export subsidies on primary products are much weaker than those for industrial products, contracting parties are not given licence to apply export subsidies at any level they see fit.

New Zealand has itself followed a careful marketing policy and we have attempted to divert supplies from the United Kingdom market. In 1955/56 86 per cent of our butter was exported to the United Kingdom, but in the 1959/60 season this proportion was about 89 per cent. New Zealand's attempts to find alternative markets have been seriously impeded by quantitative restrictions and other action taken by other countries to protect butter producers. Whether or not these measures are covered by GATT procedures, they have the effect of hampering New Zealand's efforts to ease the situation on the United Kingdom market by diverting supplies to other destinations. In the light of these limitations on its efforts, New Zealand has been paying even closer attention to the careful placing of supplies in the United Kingdom. Over the long term New Zealand has tried to maintain the stability of the butter price at a reasonable level by its stock policy and its marketing policy. In pricing, New Zealand has refrained from taking the full extent of the realizations that might have been justified by the market in favourable periods in order that consumption would not be discouraged.

As far as internal consumption is concerned, New Zealand's home consumption of butter per capita is among the highest in the world at approximately 19 kgs. per annum.
May I now show briefly how this situation is related to New Zealand's overall economic position. New Zealand is one of the countries with a high degree of dependence on a few primary products. Butter provides between 15 and 18 per cent of New Zealand's total export income and export income itself is equivalent to approximately one quarter of the gross national product. As a result of the fall in export prices, New Zealand's external exchange receipts for butter fell from £60.4 million in 1959 to £44.7 million in 1960 and are expected on present prices to fall to an even lower level for 1961. The overall deficit in New Zealand's balance of payments in 1960 was just over £27 million, and the fall in overseas exchange receipts for butter was an important contributor to this.

The continuation of a low price for butter was an important factor in the New Zealand Government's action of 13 April, which has just been notified to the secretariat, and is designed to correct a further serious decline in New Zealand's overseas reserves.

To the extent that New Zealand depends on a very high proportion of imports in its total supply of goods for use, the deterioration in butter receipts, reducing our ability to import, has further consequences for our economy.

The loss of income to dairy farmers has effects beyond the extent of the actual reduction. Farm income is still basically the mainspring of all economic activity in New Zealand, and this applies particularly to the income from intensive farming, such as dairying.

Other countries interested in the production of butter also have reason to be concerned at present prospects. No producer can benefit in the long term from uneconomic butter prices. If the prices continue at a low level countries basing their trade on competitive commercial principles will ultimately be less inclined towards butter production and consumers in the United Kingdom will in the long run be required to pay a price closer to the cost of production of the protected producers. Moreover the consequent reallocation of resources by agricultural countries might be achievable only by applying in the industrial field those same precepts which industrial countries now seek to apply as regards agriculture.

Thus the present restriction of trade in agricultural products could well lead to a restriction of trade in industrial products.

We have already expressed the hope that from our discussions this week there will emerge a programme of "action to deal with the present situation" that contracting parties might recommend to their governments. We have mentioned particular practices of dumping and subsidization for which the remedies already exist in the rules of the GATT.
Apart from this, however, the New Zealand delegation has some suggestions that other delegations might wish to use as a basis for discussion.

In the light of what I have said, it seems that the most useful action that governments might take at the present time would be the adoption of policies designed to result in some restraint on the level of supplies of butter sent to the United Kingdom market.

This can be done in three main ways: the diversion of supplies to other markets; the stimulation of domestic consumption; and action to avoid the creation of abnormal surpluses.

To be more specific, the New Zealand delegation suggests that we might use as a basis for discussion the following suggested remedies within which individual governments can take action as part of a co-ordinated programme:

(i) Countries which as a result of their agricultural price and income support policies have supplies of butter, surplus to domestic requirements, should exercise restraint in the level of supplies being sent to the United Kingdom in the present period.

(ii) Exporting countries should have regard to the need for the phasing of supplies in the light of the market situation and also to the orderly marketing of surplus stocks.

(iii) Governments should co-operate by not granting new subsidies on the export of butter and by substantially reducing or eliminating existing subsidies.

(iv) Governments should, particularly by adopting a more liberal attitude to imports of butter and by taking the measures set out below, co-operate in creating opportunities for present exporters to divert supplies from the United Kingdom market.

(v) The governments of exporting and importing countries should adopt policies designed to raise the consumption of dairy produce within their own territories. Measures designed to achieve this end would include welfare programmes and the encouragement of price reductions in favour of all consumers or at least certain groups of them.
(vi) The governments of exporting and importing countries should adopt policies designed to reduce the proportion of liquid milk entering into butter production, for example by raising the fat content in the liquid milk consumed in their territories.

(vii) The governments should limit the extent of assistance to producers of milk and butter in order to avoid the creation of surpluses which can be disposed of on the United Kingdom market only by means of export aids; such action should also make it possible to enlarge other countries' opportunities to export butter to their territories. Moreover, action on these lines would encourage the shift of resources from dairying to the production of commodities to which resources are better allocated; and further efforts towards improving productivity by a reduction in costs rather than an increase in output.

In asking for the co-operation of other contracting parties in working out a programme, perhaps on the lines we have suggested, I would again remind other delegations that while all countries may have their own problems in dairy production and exporting, no country is as dependent on butter exporting as New Zealand. In no country is the effect of these butter marketing difficulties on the balance of payments, on the ability to trade and on the internal economy, so significant. We are of course aware and appreciate that a number of countries have already taken action along the lines of some of the above suggestions. We should like to see such measures continued and strengthened as well as being more widely applied.