Pilot Group on Dairy Products

NOTE BY THE NEW ZEALAND DELEGATION

A. Trends in Production, Consumption and International Trade in Dairy Products

B. Problems of International Trade in Dairy Products

C. Proposals for Action in the Group

A. Trends in production, consumption and international trade in dairy products

1. It is expected that the Group will commence its work with a brief examination of the present characteristics and trends of production and trade with the object of identifying the problems to be overcome. The Group should have available a statistical paper prepared by FAO at the request of the GATT secretariat. On the basis of this paper supplemented if necessary by reference to other information and documents (e.g. Committee II reports; FAO reports and projections), attention should be given to those aspects of the world dairy situation which are of most relevance to the basic task of the Group (see Section C below).

2. In respect of production and consumption major points would include the following:

(i) A combination of high support prices in most of the larger producing countries, particularly in the Northern Hemisphere, and technological improvements have had the effect of greatly encouraging production on the one hand and (because high producer prices are reflected in high consumer prices and therefore some measure of sales resistance) discouraging consumption of the other.

(ii) Since 1956 there has been an expansion in milk production in all significant dairy producing countries with the notable exception of the United States where production has been virtually static.

(iii) Butter production has also expanded significantly in the EEC countries other than Italy and Belgium which are not major butter producers. Increases have also been marked in the United Kingdom and in Canada but production levels in the United States and the three major exporters, New Zealand, Denmark and Australia, have been virtually static.
Cheese production has expanded significantly in most countries, the exceptions being the United Kingdom (where the conditions of milk supply for cheese necessarily make for a somewhat erratic supply trend) and New Zealand.

Consumption per head of liquid milk has not changed markedly over this period except for significant declines in the United States and Canada. The importance of these can be gauged from the fact that the drop of 2.6 gallons per head per annum in milk consumption in the United States represents the equivalent of between 80,000 and 90,000 tons of butter per annum.

Butter consumption per head has also been fairly static but there have been significant declines in the United States, Canada and Australia. It should be noted, however, that recent action in Canada providing for a lower-retail price has markedly reversed this trend. In the case of the United States the decline in consumption represents the equivalent of about a further 90,000 tons of butter.

Cheese consumption has increased in every case in some countries such as Denmark, France, Italy and the Netherlands quite markedly.

The imbalance between production and consumption in countries other than North America has not yet reached the point where surpluses are a regular feature. Indeed, shortages still occur occasionally. This suggests that apart from the large surplus still held in the United States the extent of the imbalance between world supply and demand is not at present very great and would not exist at all if national policies did not isolate wide sections of the total market. Quite moderate changes in these policies would probably suffice to remove the imbalance. Generally in North America there are signs of a better balance between production and consumption. While the evidence of the decline in per head consumption is disturbing, there are signs that production is also levelling off, e.g., there is a continuing downward trend in cow numbers, which is not now being compensated for by increases in yields per cow. In Canada the reduction in support prices is having the desired effect in restraining the rate of dairy production and increasing consumption.

However the global imbalance is likely to grow unless changes in policies are made soon. Studies made by the FAO within the past year or so indicate that on the assumption that present national dairy policies and other factors influencing world production and consumption continue unchanged, the supply of dairy products is likely to grow considerably in excess of likely commercial demand. The study is covered fully in the paper furnished by FAO for this meeting. Of course the forecasts of net exportable surpluses increasing substantially in relation
to the demands of commercial trade are projections only and in practice before discrepancies of this magnitude occurred producing countries would be forced to review their policies. But even if this trend continued to a limited extent, the effect on commercial international trade in dairy products is likely to be serious.

3. In respect of international trade in dairy products, relevant points to emerge from the statistical analysis include:

(i) Only a relatively small proportion of total production of dairy products (particularly butter and cheese) enters world trade.

(ii) In respect of butter, the only significant export market is the United Kingdom. Imports by European countries are small and by North America negligible because of the widespread use of quantitative restrictions.

(iii) The United Kingdom is also the largest single importer of cheese, but imports into the EEC are also important and have expanded markedly in recent years. Cheese imports into North America are mainly confined by import licensing to special types.

B. Problems of international trade in dairy products

4. In general the problems of international trade in dairy products are well enough known, having been discussed exhaustively on other occasions in GATT and other international bodies. What is required in terms of the GATT Ministerial Resolution of May 1963 is positive action to deal with these problems, and to permit traditional commercial exporters of dairy produce to participate effectively in the expansion of international trade sought in that Resolution.

5. In any discussion of the problems, the following points require attention:

(i) With production in many countries stimulated by support programmes and protected from the normal influences of market forces, and with consumption in those countries retarded by high prices there has been an increase in restrictions on international trade in dairy produce and a narrowing of market opportunities for regular commercial exporters.

(ii) In the great majority of instances, tariffs are not the only, or the effective, restriction on trade, so that action beyond tariff reductions will be necessary.

(iii) The narrowing of access opportunities in North America and Western Europe has led to an increasing concentration of exports to, and intensified competition in, the few remaining commercial markets, particularly the United Kingdom.
(iv) In some countries production has increased, or is tending to increase, to levels in excess of domestic demand at prevailing consumer prices. To maintain price levels in these countries, governments are subsidising the export of quantities surplus to domestic requirements. In effect these governments are achieving price stability in their own countries at the expense of instability and disruption in other markets, and to the detriment of regular commercial suppliers.

(v) Apart from the United Kingdom commercial export markets for butter are negligible. If production continues to increase faster than consumption, particularly in Europe, there is likely to be increasing pressure of supplies on these markets and prices may be forced down to the point where they do not provide a remunerative return even for the most efficient commercial producer.

C. Proposals for action in Group

6. It is against the above background of trends in international trade and in production and consumption that the GATT Dairy Group will need to approach its task. The following paragraphs suggest the main matters which the Group will need to consider in achieving its objectives.

7. The basic objective of the special commodity groups is to negotiate arrangements providing for the development and expansion of world trade in agricultural products through the creation of acceptable conditions of access to world markets to ensure for agricultural exporters meaningful tariff and other concessions comparable with the linear tariff reduction agreed generally for the present round of trade negotiations. Special commodity groups have been established for cereals, meat and dairy products because of the prevalence of non-tariff barriers and the special technical and other problems involved in providing acceptable conditions of access. The main task of the Dairy Group is to find ways and means by which importing countries can meet their obligations to exporters of dairy produce in GATT generally and in the trade and tariff negotiations in particular.

8. To this end the Group on Dairy Products will need to consider:

(i) The inclusion of all dairy products in the linear tariff reduction of each country, whether or not non-tariff barriers at the frontier are in use.

(ii) Ways and means of ensuring that benefits for agricultural exporters of such tariff reductions are not frustrated by non-tariff barriers.

(iii) Where protective techniques other than, or in addition to, a simple tariff are employed the nature of commitments on such non-tariff barriers to ensure satisfactory conditions of access.
(iv) The nature of any adjustments and/or commitments on price and production policies in countries where non-tariff methods of protection tend to divorce production from market demand.

(v) Limitations on export subsidies.

9. To facilitate consideration of the problems of access importers might be asked by the secretariat to indicate for the next meeting of the Dairy Group for each dairy product whether they propose to include the tariff item in the linear reduction (whether or not protection is by tariff only), and where non-tariff barriers are used, what modifications in their policies they intend to offer to ensure better conditions of access.

10. In so far as the growing imbalance between production and demand projected by FAO arises from policies contrary to the principles and objectives of GATT in general and the Kennedy Round in particular, the Dairy Group will also have to consider means of avoiding this imbalance and the harmful consequences it would have for commercial trade if allowed to develop unchecked. The objective would be to restrain the increase in world production of milk products to growth in world commercial demand. This might involve consideration of:

(i) The scope for expanding consumption of liquid milk and manufactured dairy products in producing countries.

(ii) Commitments which countries might assume to seek outlets in an expansion of domestic consumption and/or contributions to non-commercial welfare programmes instead of displacing imports or disrupting other commercial markets if support policies stimulate production unduly.

(iii) Commitments to submit price and production policies to an annual or periodic international confrontation procedure.