

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## International Dairy Arrangement

### COMMITTEE OF THE PROTOCOL REGARDING CERTAIN CHEESES

#### Twenty-Fifth Session

#### Report

##### Introduction

1. The Committee of the Protocol Regarding Certain Cheeses held its twenty-fifth session on 18 March 1986.

##### Adoption of the agenda

2. The Committee adopted the following agenda
  1. Election of the Chairman and Vice-Chairman
  2. Adoption of report on the twenty-fourth session
  3. Information required by the Committee
    - (a) Replies to Questionnaire 3
    - (b) Summary tables
    - (c) Other information
  4. Sales under derogations
  5. Review of the market situation for products covered by the Protocol
  6. Adjustment of minimum prices according to exchange rate fluctuations
  7. Oral report to the Council
  8. Date of next session.

##### Election of the Chairman and Vice-Chairman

3. The Committee re-elected Mr. G.A. Stünzi (Switzerland) as the Chairman, while no Vice-Chairman was elected.

Adoption of report on the twenty-fourth session

4. The Committee adopted the report on its twenty-fourth session. This was distributed as document DPC/C/38.

Information required by the Committee

(a) Replies to Questionnaire 3

5. The Committee reviewed the replies to Questionnaire 3 and requested participants who had not communicated such information in respect of the fourth quarter of 1985 to do so without further delay. They were also requested to submit information regarding the first quarter of 1986 by 15 June at the latest.

(b) Summary tables

6. The Committee reviewed the summary tables based on information provided by participants in Tables A and B of Questionnaire 3 in respect of certain cheeses. The Committee took note of document DPC/C/W/30, which would be revised taking account of more recent information submitted.

(c) Other information

7. The Committee took note of the statistical information which the secretariat had compiled on production, trade (including food aid), stocks and consumption of dairy products in the United States.

Sales under derogations

8. The Committee took note of New Zealand's sales to Portugal of 487.2 tons of Cheddar cheese of lowest manufacturing quality displaying fruity, rancid flavours, at prices below the GATT minimum price (US\$402/ton f.o.b.) for processing and re-export (DPC/C/W/26/Add.4). The Committee also took note of South Africa's sale of the remaining 550 tons out of a total notified quantity of 2,000 tons of faulty cheese under Article 7:2 of the Protocol Regarding Certain Cheeses at a price of US\$800/ton f.o.b. South Africa (DPC/C/W/25/Add.3).

Review of the market situation for products covered by the Protocol

9. The representative of Switzerland informed the Committee that the quantitative restrictions imposed on production of various types of cheeses had been lifted in January this year, as a result of which production in February had tended to move upwards. While there was no change in imports, exports had slightly receded, especially of Emmenthal and Gruyère. Consumption had remained stable and stocks at 20,200 tons at end-February were slightly lower than in the previous month. While the stocks of Gruyère and Emmenthal were normal, those of Sbrinz were below their normal level. The mid-year forecast was for normal stocks of all the three types of cheeses. Export prices of Emmenthal and Gruyère cheeses had trended upwards to all the destinations, but those of Sbrinz had been substantially down.

10. The Swedish delegate said that production of cheese in his country was about 1 per cent lower in 1985 as compared to the level in the previous year. However, consumption was nearly 1 per cent higher than in last year. The forecast for 1986 was that both production and consumption would remain unchanged from their present levels. Imports of cheese at 14,900 tons in 1985 were about 7 per cent more, while exports at 5,200 tons were 11 per cent lower than in 1984. Average export price in the fourth quarter of 1985 was around US\$2,380/ton f.o.b.

11. The representative of Norway reported that while cheese production during 1985 was about 1.5 per cent up, consumption was about 5 per cent higher than in the previous year. Exports during 1985 aggregated 12 per cent higher than in 1984. Stocks at around 19,000 tons at the end of December were slightly below their level in the third quarter of 1985.

12. The delegate of Finland mentioned that production of cheese at 79,000 tons in 1985 was about 4 per cent higher than in 1984. A further small increase was anticipated for 1986. Consumption of cheese at about 46,000 tons was 2 per cent more than in the previous year. Export price during the fourth quarter of 1985 averaged US\$2,870/ton f.o.b.

13. The South African delegate reported that cheese production in 1985 at 33,983 tons was about 7 per cent below the level of 1984. Domestic consumption remained unchanged which, however, led to a draw down in stocks from 13,886 at the end of 1984 to 10,751 tons at the end of 1985.

14. The representative of New Zealand said that cheese production during 1985 at 120,600 tons was a shade lower than the level in 1984. Exports were stable at last year's level, but stocks had increased from 42,500 tons at end-September to 68,500 tons at end-December. Export prices ranged between US\$1,100-1,200/ton f.o.b., which indicated a reasonable price stability. A further improvement in the next twelve months could not be ruled out.

15. The delegate of Japan indicated that while production of cheeses in 1985 remained stable at 19,000 tons, imports had increased from 79,000 tons in 1984 to 82,000 tons in 1985 or by nearly 4 per cent. Domestic consumption remained more or less unchanged. Average import price had remained stable at US\$1,700/ton c.i.f. in the past few months. In reply to a question by New Zealand whether the price of US\$1,700 was inclusive of the 25 per cent custom duty, he said that it was the c.i.f. price.

16. The representative of Bulgaria said that his country was a net exporter of cheese to the world market. In particular, they were a significant supplier of milk soft cheese and "Kashkaval" hard yellow cheese, which only a few countries produced. Total output of cheese in 1985 was 128,200 tons, including the Kashkaval, out of which 29,700 tons or 23 per cent, consisting mainly of white soft sheep milk cheese, was exported. The output of cheeses in 1985 had been 1.7 per cent lower as compared to 1984 due to bad weather conditions. Domestic consumption of cheeses had risen by 5.7 per cent in 1985 to a total of 106,800 tons. However, exports during 1985 had declined by about 12 per cent compared to the level in 1984. The main markets for Bulgarian cheese were Central East European countries, Iran, Federal Republic of Germany and

Saudi Arabia. Small quantities were also exported to the United States and Australia. Average export price was US\$2,260/ton f.o.b. for sheep milk cheese and US\$2,700/ton f.o.b. for Kashkaval and US\$1,100/ton for cow milk cheeses. Stocks at the end of 1985 at 26,000 tons were 7 per cent lower than the level at the end of 1984.

17. The representative of Australia said that the production of leviabile (Cheddar type) cheese in the July-December period of 1985/86 was 6 per cent higher than in the corresponding period of 1984/85. The Australian Dairy Commission estimates indicated that production of leviabile cheeses during 1985/86 period would be 4 per cent up on the 1984/85 level, while export availability would be around 60,000 tons given desirable closing stocks of 60,000 tons. The price of Australian Cheddar cheese was steady at about US\$1,100/ton f.o.b.

18. The spokesman of the EEC said that cheese production in 1985 at 4,255,000 tons was 1.8 per cent higher than the level in 1984 when it had increased by 3.5 per cent. Consumption, which had increased by 1.3 per cent in 1984, increased by 1.6 per cent in 1985 and was expected to increase by only 0.6 per cent in 1986. Exports of cheese also slowed down in 1985 - the level dropped from 468,000 tons in 1984 to 410,000 tons in 1985. A further drop was expected in 1986 owing to a fall in deliveries of Fetta cheese to Iran from 159,000 tons in 1985 to 118,000 tons in 1986. Exports of Cheddar cheese were also expected to recede as a result of reduced shipments to Japan, Australia and certain Mediterranean countries. The underlying reason for this was that EEC export prices in the range of US\$1,320-1,380 were outmatched by Australian export prices of US\$1,100-1,200/ton f.o.b. He concluded that the EC would have to take measures to strengthen its competitive position vis-à-vis other exporters. In reply to a remark by the delegate of New Zealand, he elaborated that a sustained drop in the dollar exchange value had destabilized the market and therefore appropriate measures were needed to maintain the competitive position of the EC. The EC share of the world cheese market was by and large regional in that the EEC had stable clients with whom bilateral trade agreements existed with regard to prices and quantities. He expressed his surprise at the Australian concern regarding the EC export refund system which had been slightly modified to allow for fair competition with other suppliers in terms of prices. The EC now had a flexible refund system according to destinations, which permitted to set the export price in the light of "bids" made in certain markets. The EC, however, made export refunds within the framework of the GATT minimum price. The alleged secrecy in keeping the amounts of refunds and export prices confidential was merely a commercial expediency to meet the cut-throat competition from other suppliers.

19. The observer of Canada indicated that his country was a producer of two types of cheeses - Cheddar and wholemilk cheeses. Production of Cheddar type cheeses in 1985 amounted to 109,000 tons, showing an increase of 8.3 per cent over the level in 1984. Consumption of cheese during 1985 went up by 6.5 per cent to a level of 102,000 tons, and stocks at 38,900 tons at the close of 1985 were lower than at the end of 1984. Exports of Cheddar cheese in 1985 at 9,100 tons compared favourably with 3,900 tons in 1984. As regards the wholemilk cheeses,

he mentioned that production in 1985 totalled 97,700 tons, i.e. 6.3 per cent higher than the level in 1984. While exports amounted to 1,300 tons, imports were 19,000 tons. Consumption of these cheeses was up by 3.2 per cent in 1985 to a level of 115,000 tons and the upward trend appeared to be continuing. A further increase of 3 per cent was anticipated for 1986, but thereafter it was expected to slow down to a rate of increase of 1.5 per cent per annum. In reply to a question by the delegate of Australia, he said that exports in 1986 were not likely to change much from the level of 1985, and those to Japan would also continue at the currently modest levels given the general trend of reduction in industrial milk production used for export purposes.

20. The delegate of Japan explained that his country imported around 1,226 tons of natural cheese (about 1 per cent of total cheese imports) in 1985 from Canada at an average c.i.f. price of US\$1,400 per ton. The price was the same as in the case of imports from Australia and New Zealand.

21. The spokesman of the Community remarked that Canada had an overall global quota of 45 million pounds for imports of cheese and the EEC provided 60 per cent of it. It was customary to ask if with an increase in domestic consumption Canada would be willing to increase the global quota to 55-60 million pounds so as to permit greater imports from the EEC. A gesture to this effect would be most welcome. In response, the Canadian observer recalled that at one time his country was a significant exporter of cheese for processing to Europe, but those exports had dramatically shrunk in more recent years. In asking for any such gesture, therefore, the EEC should also remember that Canada had made inroads in the European markets only recently.

22. The observer of OECD first of all underlined the recent fall in the value of the United States dollar which was likely to influence the growth in international trade. He then indicated that growth forecasts for the OECD countries had lately been revised upwards from 2.75 per cent to 3.25 per cent for 1986 due to a decline in oil prices. As a result of a higher growth in these countries, cheese imports were likely to increase more than other dairy products. It was not certain that the same would happen in the developing countries, especially the OPEC countries who had suffered a decline in their export earnings. In regard to cheese production in the United States, he indicated that there was an increase of 8 per cent in 1985 partly due to a substantial price support for cheese production. The rate of increase was, however, slowing down from 15 per cent in the last quarter of 1985 and now was only 2 per cent in the first quarter of 1986. Stocks at the end of 1985 were 447,000 tons, about 25,000 tons more than a year ago. An increase was forecast for end March. Stocks in the normal circumstances were expected to dwindle somewhat.

#### Adjustment of minimum prices according to exchange rate fluctuations

23. Discussion on this item was held at the joint meeting of the three Protocol Committees, where a decision was taken regarding the future status of this subject (See Spec(86)22, paragraphs 29 to 30).

Oral report to the Council

24. The Committee agreed that an oral report giving an account of its discussions at the present session would be submitted to the Council.

Date of next session

25. The next session of the Committees will be held on 16-17 June 1986, subject to confirmation by the secretariat. The session of the Protocol Committee Regarding Certain Cheeses will be followed by the session of the Committee of the Protocol Regarding Certain Milk Powders and then the Committee of the Protocol Regarding Milk Fat.