

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

RESTRICTED

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Special Distribution

International Dairy Arrangement

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INTERNATIONAL DAIRY PRODUCTS COUNCIL

Communication from the Permanent Delegation
of the Commission of the European Communities

The following communication, dated 20 September 1983, has been received from the Permanent Delegation of the Commission of the European Communities.

CALCULATION OF UNITED STATES
PRICES TO EGYPT

(Adjustments of the prices in the United States/Egypt agreement on the sale of dairy products necessary to make them comparable to the minimum prices resulting from the International Dairy Arrangement.)

1. The Community is prepared to start with the figures supplied by the United States at the Council's special meeting of 12 September 1983, which are repeated below:

	<u>Butter</u>	<u>Cheddar</u>	<u>Processed</u>
United States price to Egypt (FAS)	1,650 \$/t	1,450 \$/t	1,450 \$/t
+ stowage	+ 35 \$/t	+ 35 \$/t	+ 35 \$/t
	<u>1,685 \$/t</u>	<u>1,485 \$/t</u>	<u>1,485 \$/t</u>
- Printing cost (cutting or processing)	- 60 \$/t	- 185 \$/t	- 280 \$/t
- Interest Discount (20%)	- 330 \$/t	- 290 \$/t	- 290 \$/t
	<u>1,295 \$/t</u>	<u>1,010 \$/t</u>	<u>915 \$/t</u>
+ Additional shipping cost for United States bottoms	+ 85 \$/t	+ 85 \$/t	+ 85 \$/t
	<u>1,380 \$/t</u>	<u>1,095 \$/t</u>	<u>1,000 \$/t</u>

2. The EEC wishes, however, to bring out three aspects which justify correction of the above calculations.

(a) Interest discount

- (i) The rate applied by the United States is 10 per cent per annum, since the total interest discount, given as 20 per cent, relates to repayment by annual partial installments, i.e.:

	<u>Butter</u>	<u>Cheddar</u>	<u>Processed</u>
First year	10% of 1,650 = 165	of 1,450 = 145	of 1,450 = 145
Second year	10% of 1,100 = 110	of 966.67 = 96.67	of 966.67 = 96.67
Third year	10% of 550 = 55	of 483.33 = 48.33	of 483.33 = 48.33
	<u>330</u>	<u>290</u>	<u>290</u>
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The method of calculating interest used by the United States is the method usually used when the interest due is actually paid each year as the capital amount of a loan is repaid.

But, when the interest due is paid not in that way but only at the end of the loan period, it is customary to capitalize the interest annually due, which itself bears interest. In the present case, where the interest is not paid annually, the interest normally due should normally be capitalized, and this would increase the value of the credit extended by some tens of dollars.

- (ii) This basic rate of 10 per cent was presented at the meeting by the United States delegation as being derived from the prime rate and as the estimated cost theoretically borne by the United States.

However, the International Dairy Arrangement stipulates in Article 3.3 ("Terms of sale") of Annex II (milk fat) and III (cheeses) that "if the terms of the sale include credit, this shall be charged for at the prevailing commercial rates in the country concerned".

The commercial annual interest rates prevailing at the time the contract was signed were 13 to 14 per cent in the United States and 13 to 15 per cent in Egypt.

- (iii) In conclusion, even if one is willing to accept the United States method of calculation (which leads to a minimum adjustment), on the basis of the minimum commercial rate prevailing in the United States and Egypt (i.e. 13 per cent) the interest discount can be estimated at 26 per cent of the amount of the credit extended, i.e.:

	<u>Butter</u>	<u>Cheddar</u>	<u>Processed</u>
First year	13% of 1,650 = 214.50	of 1,450 = 188.50	of 1,450 = 188.50
Second year	13% of 1,100 = 143	of 966.67 = 125.67	of 966.67 = 125.67
Third year	13% of 550 = 71.50	of 483.33 = 62.83	of 483.33 = 62.83
	<u>429</u>	<u>377</u>	<u>377</u>
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(b) Shipping costs

The United States raises the selling price by an additional shipping cost due to the use of United States bottoms, estimated at \$85 per ton. This rise cannot be taken into account for purposes of comparison since the minimum prices under the Arrangement are f.o.b. exporting country prices. What is more, since the products are sold and the prices established "FAS United States ports", shipping costs cannot be counted.

3. As to cheese, although article 2 of the Protocol Regarding Certain Cheeses does not contain any description of the cheese "pilot product" to which the minimum export price is applicable, it can be assumed in the spirit of the Arrangement that such price relates to the minimum quality indicated in article 1 of the Protocol. In order to make the price of cheese of the minimum quality specified by the Arrangement and the price of cheese of a higher quality comparable, the following adjustment for quality, correcting the fat content and dry matter factors, should be made:

(i) Qualitative adjustment for Cheddar cheese

	<u>Fat content in dry matter</u>	<u>Dry matter content</u>	<u>Fat content by weight of cheese</u>
Quality of product in United States/Egypt agreement	50 %	61 %	(50X61) = 30.5 kg.
Quality of product mentioned in article 1 of the Protocol Regarding Certain Cheeses	<u>45 %</u>	<u>50 %</u>	<u>(45X50) = 22.5 kg.</u>
Difference	5 %	11 %	8.0 kg.

Additional costs:

- for a higher fat content, evaluated on the basis of the minimum prices of the Protocol Regarding Milk Fat for anhydrous milk fat (\$1,440/t) (0.08 X 1,440) = \$115.20/t
 - for a higher dry matter content evaluated on the basis of the minimum prices of the Protocol Regarding Certain Milk Powders (\$600/t) (11 X 6) = \$66 /t
- \$181.20/t
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(ii) Qualitative adjustment for processed cheese

	<u>Fat content in dry matter</u>	<u>Dry matter content</u>	<u>Fat content by weight of cheese</u>
Quality of product in United States/Egypt agreement	50 %	60 %	(50X60) = 30.0 kg.
Quality of product mentioned in article 1 of the Protocol Regarding Certain Cheeses	<u>45 %</u>	<u>50 %</u>	<u>(45X50) = 22.5 kg.</u>
Difference	5 %	10 %	7.5 kg.

Additional costs:

- for a higher fat content, evaluated on the basis of the minimum prices of the Protocol Regarding Milk Fat for anhydrous milk fat (\$1,440/t) (0.075 X 1,440) = \$108/t
 - for a higher dry matter content evaluated on the basis of the minimum prices of the Protocol Regarding Certain Milk Powders (\$600/t) (10 X 6) = \$60/t
- \$168/t
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4. In the light of the above corrections (interest discount, exclusion of shipping costs and qualitative adjustment), the results of the United States Delegation's calculations are to be modified as follows:

	<u>Butter</u>	<u>Cheddar</u>	<u>Processed</u>
United States price to Egypt (FAS)	1,650 \$/t	1,450 \$/t	1,450 \$/t
+ stowage	+ 35 \$/t	+ 35 \$/t	+ 35 \$/t
	<u>1,685 \$/t</u>	<u>1,485 \$/t</u>	<u>1,485 \$/t</u>
- Printing cost (cutting or processing)	- 60 \$/t	- 185 \$/t	- 280 \$/t
- Interest Discount (26%)	- 429 \$/t	- 377 \$/t	- 377 \$/t
	<u>1,196 \$/t</u>	<u>923 \$/t</u>	<u>828 \$/t</u>
- Qualitative adjustment	- 0 \$/t	- 181 \$/t	- 168 \$/t
	<u>1,196 \$/t</u>	<u>742 \$/t</u>	<u>660 \$/t</u>
Adjusted United States price to Egypt	1,196 \$/t	742 \$/t	660 \$/t
GATT minimum price	<u>1,200 \$/t</u>	<u>1,000 \$/t</u>	<u>1,000 \$/t</u>
Undercut	<u>4 \$/t</u> =====	<u>258 \$/t</u> =====	<u>340 \$/t</u> =====