

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

Spec(86)55
10 November 1986

International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN CHEESES

Twenty-Seventh Session

Draft Report

Introduction

1. The Committee of the Protocol Regarding Certain Cheeses held its twenty-seventh session on 29-30 September and 1 October 1986.

Adoption of the agenda

2. The Committee adopted the following agenda:
- A. Adoption of report on the twenty-sixth session
 - B. Information required by the Committee:
 - (i) Replies to Questionnaire 3
 - (ii) Summary tables
 - (iii) Other information
 - C. Sales under derogations
 - D. Review of the market situation for products covered by the Protocol
 - E. Review of minimum prices under Article 3:3(b) for products covered by the Protocol
 - F. Report to the Council
 - G. Future meetings

Adoption of report on the twenty-sixth session

3. The Committee adopted the report on its twenty-sixth session. This was distributed as document DPC/C/41.

Information required by the Committee

(i) Replies to Questionnaire 3

4. The Committee reviewed the replies to Questionnaire 3 and requested participants who had not communicated such information in respect of the second quarter of 1986 to do so without further delay. They were also requested to submit information regarding the third quarter of 1986 by 10 December at the latest.

(ii) Summary tables

5. The Committee took note of document DPC/C/W/30/Rev.2 which contained information up to the first quarter of 1986 and the documents DPC/W/62 and DPC/W/62/Add.1 covering the more recent information.

(iii) Other information

6. 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. This information was updated in the light of comments made by the observer from the OECD.

7. The Committee also took note of the document DPC/W/63 which the secretariat had prepared on the United States Export Sales of Dairy Products under Section 1163 of the Food Security Act of 1985.

Sales under derogations

8. The Committee took note of the information provided by New Zealand concerning its sales of cheese in accordance with Article 7:2 of the Protocol Regarding Certain Cheeses in the second quarter of 1986. This, together with the oral information provided earlier regarding sales in the first quarter of 1986, was issued in document DPC/C/W/26/Add.5. The Committee also took note of the register of sales made under derogation in document DPC/C/W/27/Rev.3.

Review of the market situation for products covered by the Protocol

9. The spokesman of the EC indicated that production of cheeses in 1986 was expected to show a modest increase of 1.1 per cent, i.e., from 4,275,000 tons in 1985 to 4,322,000 tons in 1986. The forecast for 1987 was a further increase of 1.3 per cent to a figure of 4,378,000 tons. Consumption was, however, estimated to have increased at a snail's pace, i.e., 0.3 per cent, to a figure of 3,997,000 tons in 1986 from 3,947,000 tons in 1985. It was expected to rise by 0.9 per cent in 1987 to reach a total of 4,031,000 tons. The export performance was, however, rather disappointing. In 1985 exports were down to 408,000 tons as compared to 468,000 tons in 1984. In the first half of 1986, the level at 178,000 tons was 9,000 tons less than the level in the corresponding period of last year. On the other hand, imports in the first six months of 1986 were the same as in 1985 at around 50,000 tons. Average export prices for Emmental were reckoned at US\$2,150 per ton, for Cheddar at US\$1,300 per ton and for Gouda at US\$1,450 per ton, f.o.b. Stocks, as at 11 September 1986, were estimated at 129,600 tons, mainly of Italian-type cheeses.

10. In reply to a question by the Australian representative whether exports were expected to increase in relation to the 1.3 per cent increase in production, he said that domestic consumption of cheeses was progressing at the rate of 1 per cent per annum, and that in view of the enlargement of the EC the potential for greater internal disposal was also there.

11. The delegate of Argentina said that cheese output during the first quarter of 1986 at 58,946 tons was about 13 per cent more than in the corresponding period of the previous year, when the level was 52,266 tons. Exports were also relatively higher. Average export price for cheeses was not under US\$2,060 per ton f.o.b.

12. The representative of Australia informed that cheese production in 1985/86 at 170,300 tons was 6.7 per cent more than the level of 159,600 tons in 1984/85. This was due to an increase of 8.2 per cent in the production of Cheddar and leviabile-type cheeses from 108,600 tons to 117,500 tons due to a shift in production away from butter and skimmed milk powder towards cheese and whole milk powder, because of the depressed outlook for these two products. In 1986/87 cheese output was forecast to remain at about the same level as in 1985/86, although the mix was expected to change with a decline in leviabile cheese production from 117,500 tons to 115,000 tons, and an increase in production of non-leviabile cheeses from 52,800 tons to 55,000 tons. Domestic sales of Australian cheese in 1985/86 were 104,000 tons, slightly more than the level of 103,000 tons in the previous year. A further increase in domestic sales to 108,000 tons was expected in 1986/87. Imports in 1985/86, however, at 20,200 tons were 9.4 per cent lower than the level in 1984/85. Given objective closing stocks of 60,000 tons, export availability of leviabile cheese was estimated to be around 63,000 tons in 1986/87.

13. Commenting on the world market situation, he remarked that in view of the poor international outlook for butter and skimmed milk powder the major exporting countries and, in particular the EC, were likely to dispose of excess milk fat on world markets as cheese. This would make the international cheese market highly competitive. Notwithstanding increased cheese consumption, particularly in developed countries, the international cheese market was expected to remain well supplied during 1986. World cheese output in 1986 was expected to increase by 2.5 per cent to a level of 9,740,000 tons. In view of a severe erosion of the import purchasing power of the Middle Eastern countries due to a drop in oil export incomes, only a limited increase in demand for cheese could be expected in this region. Australia was also concerned that in an attempt to gain a larger

share of the Japanese Cheddar market the EC had, on 17 May, increased export refunds on exports of Cheddar thus pulling down the Cheddar prices in Japan to around the GATT minimum price of US\$1,000 per ton f.o.b. Current quotations for Australian cheese for general export were in the range of US\$1,050-1,100 per ton f.o.b.

14. The delegate of Japan told the Committee that cheese output in 1985 was at the same level as in the previous year. Imports of natural cheese in 1985 were 3.2 per cent more than in the previous year. During the first half of 1986, however, imports fell by 2.9 per cent as compared to their level in the corresponding period of last year. Average import price of natural cheese during 1985 was US\$1,532 per ton c.i.f. In more recent months, however, the import price had been slightly higher, in the range of US\$1,596 and 1,707 per ton c.i.f.

15. The New Zealand delegate considered the international cheese situation to be somewhat unsettled. Prices from most suppliers continued to be above the GATT minimum, at around US\$1,100-1,200 per ton f.o.b. The 1985-86 season had witnessed a significant increase in the production of cheese and whole milk powder, resulting in an increase in stocks. With this increase in stocks, it was expected that production could be reduced by 10,000 tons during the 1986-87 season to a level of 110,000 tons.

16. The representative of Poland said that cheese production during the second quarter of 1986 amounted to 29,335 tons, which was marginally above the level in the same period of last year. Stocks had increased somewhat as a result of a decline in exports and domestic consumption. Average import price was reckoned at US\$1,200-1,500 per ton c.i.f.

17. The representative of South Africa indicated that though cheese output in the second quarter of 1986 was below the level of the corresponding period of last year, domestic consumption had substantially increased, thus resulting in a fall in stocks from 9,341 tons to 1,698 tons. The traditional rise in domestic consumption in the second quarter was linked with the anticipated rise in prices on 1 July.

18. The Finnish delegate informed that cheese output in the second quarter at 22,000 tons was about 5 per cent more than in the same period of last year. Output for 1986, however, was not expected to exceed the level of last year at 79,000 tons. Average export prices, mainly for Emmental-type cheeses, during the first quarter, were around US\$2,942 per ton and in the second quarter were somewhat higher at US\$3,024 per ton f.o.b.

19. The delegate of Norway told the Committee that production of natural cheeses at 38,580 tons in the first half of 1986 was about 5 per cent higher than in the same period of last year. Consumption was expected to remain stable at last year's level. Exports during the first half of 1986 amounted to 8,416 tons as compared to 7,884 tons, showing an increase of 7 per cent over the corresponding period of 1985. However, for 1986 as a whole, they were expected to remain stable at last year's level of 19,738 tons. His country faced keen competition on the Japanese market.

20. The Swedish delegate stated that cheese output in the first six months of 1986 totalled 52,500 tons which was 4,500 tons or 1 per cent less than in the corresponding period of 1985. Domestic consumption was, however, 1,300 tons or 3 per cent higher than in the same period of the previous year. Imports during the first half of 1986 amounted to 5,700 tons, i.e., 13 per cent less than the level in the same period of 1985. Exports were also 600 tons less than in the same period of last year. The average export price during the second quarter of 1986 was US\$2,500 per ton f.o.b.

21. The representative of Switzerland mentioned that production of cheese had been reduced artificially in 1985. Current prices of cheese were 3 per cent higher than their level in 1985, but were in keeping with their long-term trend. Production in 1986 was expected to return to the normal level of 1984. The estimated increase in imports during 1986 was 3 to 4 per cent, while exports were expected to decrease by 2 to 3 per cent. Consumption was slightly on the increase by roughly 2 per cent. Stocks were lower than last year. Stocks of Emmental were particularly low while those of Gruyère were more or less normal and those of Sbrinz were comparatively high. Prices in Swiss currency remained more or less stable, only showing slight increases in some cases.

22. The observer of Canada informed that production of Cheddar cheese in the first half of 1986 at 55,563 tons was up by 6.5 per cent over the same period of last year. Consumption had also increased slightly, while stocks had decreased by 10 per cent from last year's level. Exports during the first half of 1986 totalled 4,671 tons compared to 3,565 tons in the same period last year. With respect to other cheeses, he added that production was up by 18 per cent in the first half of 1986. Consumption increased by 19 per cent, while imports increased by 15 per cent during this period. Stocks on 30 June were more or less the same as in the previous year. Exports continued to be rather modest, totalling 741 tons in the first half of 1986. Replying to the EC question concerning the existing level of cheese stocks, he informed that on 30 June 1986 while Cheddar stocks totalled 35,651 tons, those of other cheeses amounted to 12,077 tons. At the remark of the New Zealand delegate, however, he undertook to check the accuracy of these figures. In reply to another question by the EC as to which factors had led to a spectacular increase in domestic consumption, he explained that cheeses provided a healthy addition to diets and that Canadians had also developed a taste for all types of cheeses. This was illustrated by the evolution of consumption over the past few years. In 1983-84, domestic disappearance of cheeses totalled 202,000 tons, subsequently increasing to 217,000 tons in 1984-85 and 228,000 tons in 1985-86. In reply to the comment of the EC spokesman that there were rumours regarding a cut in the global quota for cheese which, in view of a substantial increase in domestic consumption, was not realistic, he promised to provide the relevant information bilaterally at a later stage.

Review of the level of minimum prices under Article 3:3(b)

23. In accordance with the provisions of Article 3, paragraph 3, of the Protocol, the Committee reviewed the level of the minimum export price for certain cheeses.

24. The Committee decided that the level of the minimum export price specified in Article 3:3 for certain cheeses be modified to US\$1,030 per metric ton, f.o.b. It was agreed that the decision would take effect at noon on 2 October 1986.

25. The Committee agreed that the decision would be duly recorded in the report and would be the subject of a procès-verbal signed by the Director-General of the CONTRACTING PARTIES to the General Agreement, certifying the entry into force of the new minimum price.

Oral report to the Council

26. The Committee agreed that an oral report on its discussions at the present meeting would be presented to the Council.

Future meetings in 1987

27. In accordance with Rules 3 and 16 of its Rules of Procedure, a tentative schedule of regular meetings of the Protocol Committees was adopted for 1987. It was, however, understood that any special session would be in addition to this schedule and that all dates would remain subject to confirmation by the secretariat (DPC/W/64).

28. The next session of the Committee will be held on 15-16 December 1986, subject to confirmation by the secretariat. The session of the Committee of the Protocol Regarding Certain Milk Powders will be followed by the session of the Committee of the Protocol Regarding Milk Fat and then the Committee of the Protocol Regarding Certain Cheeses.