

# GENERAL AGREEMENT ON

RESTRICTED

## TARIFFS AND TRADE

Spec(87)39  
27 July 1987

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### International Dairy Arrangement

#### COMMITTEE OF THE PROTOCOL REGARDING CERTAIN CHEESES

##### Thirtieth Session

##### Draft Report

#### Introduction

1. The Committee of the Protocol Regarding Certain Cheeses held its thirtieth session on 15 June 1987.

#### Adoption of the agenda

2. The Committee adopted the following agenda:
- A. Adoption of report on the twenty-ninth 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. Report to the Council
  - F. Date of the next session

Adoption of report on the twenty-ninth session

3. The Committee adopted the report on its twenty-ninth session. This was distributed as document DPC/C/45.

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 first quarter of 1987 to do so without further delay. They were also requested to submit information regarding the second quarter of 1987 by 15 September 1987, at the latest.

(ii) Summary tables

5. The Committee reviewed the summary tables based on information provided by participants up to the end of 1986, which were issued in document DPC/C/W/33. It was noted that revised summary tables would be issued when data for the second quarter of 1987 would be received from all participants.

(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. Data related to the first quarter of 1987 and also gave forecasts for the second quarter of 1987.

7. The Committee noted the information provided by the secretariat that no significant sales had been made by the United States under the new Dairy Export Incentive Program adopted in February 1987. The secretariat would, however, continue to follow the future developments in this programme.

8. The Committee also took note of the information given by the secretariat on the follow-up of the understandings reached by the Committee and of the work being done in other organizations with regard to the effects of the Chernobyl nuclear accident (see Spec(87)40, paragraph 8).

Sales under derogations

9. The Committee took note of the register of sales made under derogations and issued in document DPC/C/W/27/Rev.5.

10. The Chairman then drew attention of the participants to New Zealand's earlier request for an amendment of the interpretative note relating to Article 7:2 of the Protocol (DPC/C/W/31). At the December 1986 meeting members had expressed their particular views and the secretariat had prepared a note on the legal aspects of the question (DPC/C/W/32) which was subsequently discussed at the March meeting of the Committee. Discussions revealed a wide divergence of views (DPC/C/45, paragraphs 21 to 37) as a result of which the Committee decided to take up the matter again at its present meeting.

11. The New Zealand representative suggested that in view of the fact that bilateral consultations were still in progress it was more pertinent that the matter be discussed at the next regular Committee meetings.

12. The Committee agreed to take up this item at its September meeting.

Review of the market situation for products covered by the Protocol

13. The representative of Australia indicated that cheese production in the first quarter of 1987 amounted to 46,300 tons, up 9 per cent on the corresponding period in 1986. Output of Cheddar and Cheddar type cheeses was 33,900 tons as compared to 30,500 tons in the first quarter of 1986; while that of non-Cheddar type cheeses was 12,400 tons compared to a level of 11,900 tons in January-March of 1986. Production over the period July 1986-March 1987 was 149,100 tons, up 1.6 per cent on 1985/86 level of

146,800 tons. The forecast for 1986/87 (July/June) was 175,000 tons, which would be 2.8 per cent up on the level of 170,300 tons in 1985/86. Of this, Cheddar would add up to 122,000 tons, 1.2 per cent down on the 1985/86 level, and non-Cheddar 53,000 tons, 13.5 per cent more than the level of 46,700 tons in 1985/86. Exports in 1986/87 were forecast at about 59,500 tons, comprising 53,000 tons of Cheddar and 6,500 tons of non-Cheddar cheeses. As against this, exports in July-March 1986/87 were 41,500 tons. Consumption of Australian cheese in 1986/87 was forecast at around 115,000 tons (Cheddar 69,500 tons and non-Cheddar 45,500 tons), showing an overall increase of 9.3 per cent over the level of 105,200 tons in 1985/86. Export price was steady at US\$1,100 per ton f.o.b. International trade in cheese remained keen as several dairying countries were swinging away from skimmed milk powder and butter production towards increased cheese production. Australian cheese had recently been in strong demand in Japan due to apparent shortages of supply by New Zealand and Canada. There had been a general firming of the cheese market during 1987 with the Australian offer price for cheese in the new season expected to be US\$1,200 per ton, which was significantly above the current minimum. Australia was, therefore, in favour of an increase in the minimum price for cheese, thus bringing it closer to the level of the market.

14. In reply to a question by the spokesman of the EC, he confirmed that his Government had introduced tariff quota arrangements to cover cheese imports. According to the new arrangements, the existing duty rate of \$A96 per ton on imports of dutiable cheese for imports up to the 1985-86 level of 11,500 tons was maintained. Beyond that level of imports, the general tariff rate of \$A2,100 per ton would be applicable with effect from 1 June 1987. Tariff quotas would be allocated to importers on the basis of past performance. The legislation contained a sunset provision of 30 June 1992. These tariff quota arrangements, however, excluded non-dutiable cheeses in the fancy categories and imports from New Zealand, Papua New Guinea and Pacific Island Forum countries. The implementation of the cheese tariff quota arrangements was predominantly a domestic market initiative which had been approached as a part of the dairy marketing arrangements in order to provide stability and predictability to the market while the overall level of assistance to the industry was being reduced.

15. Responding to a Finnish comment that while production of cheeses had increased in Australia the introduction of a tariff quota was intended merely to restrict imports, he said that the appropriate forum for discussing policy matters was the International Dairy Products Council which was going to meet in September. He noted, however, that this tariff quota was not restrictive insofar as it permitted the same level of imports as in 1985/86 at the old, lower duty rate and that there was no restraint on imports at the higher tariff level.

16. Replying to another EC question of why Australia had excluded certain countries from the tariff quota restrictions and what was the legal basis of these new restrictions, he made it clear that tariff quotas did not apply to New Zealand, Papua New Guinea and Pacific Island Forum countries because of the existing special trade arrangements with these countries. Furthermore, it was wrong to compare tariff quota arrangements with variable levies which were highly restrictive and prohibitive. Duty of around only ECU 1.1 per kg. of cheese was not at all prohibitive in contrast to the EC's high variable levies on cheese which were prohibitive. Australia would be happy to export cheese to the EC at this duty rate without quota restrictions. If any exporters were confronted with marketing difficulties, they were free to raise the matter at the next Council meeting in September. As to the legal basis of these new arrangements, he said that the tariff quota was in conformity with the GATT. The general tariff level was not prohibitive and the tariff quota was not a quantitative restriction in terms of Article XI.

17. It was agreed that the Committee should take note of all the views expressed. A more substantial discussion of policy matters could be held at the Council meeting in September, by which time Australia would have submitted revised information for Questionnaire 5.

18. The representative of Japan said that cheese output in fiscal year 1986 was 2.3 per cent above the level of the previous year. Imports of natural cheese in 1986 were at the same level as in 1985. Average import price of natural cheese during 1986 was US\$1,647 per ton c.i.f. as against US\$1,656-US\$1,714 per ton c.i.f. in more recent months of 1987. As to the

fear expressed by the EC representative that as a result of changes in the Japanese price support system for milk with effect from 1 April 1987, the domestic cheese production was likely to increase by 10,000 tons to 15,000 tons a year and thus imports from the Community would correspondingly decrease, he explained that as a result of a deregulation of milk production the deficiency payments in 1987 applied to only 2.1 million tons of milk, down by 0.2 million tons. In spite of the fact that dairy industry played an important role in Japanese agriculture, there was a stagnation in demand for all dairy products except cheese. Potential for an increase in cheese production was being exploited with the help of more deficiency payments for milk used for cheese. How much cheese could be exported to Japan depended mostly on prices. Japan had made considerable efforts to increase its consumption of cheese but no precise indication could be given about future cheese imports.

19. The representative of New Zealand said that there was a general downtrend in the production of all dairy products. Cheese production in calendar year 1986 was some 17,000 tons less than in 1985, representing a 7 per cent decline. The overall market situation was improving. New Zealand, like the EC was, however, concerned at the recent dairy policy changes in Japan.

20. The representative of Poland informed the Committee that measures taken to encourage domestic consumption of cheeses had led to positive results. Overall consumption in the first quarter of 1987 at 27,453 tons was almost 6 per cent more than in the corresponding period of last year. Per capita consumption of cheeses had increased from 2.93 kgs. in 1985 to 3.06 kgs. in 1986.

21. The representative of South Africa told the Committee that due to a fall in milk production, cheese output in the first quarter of 1987 showed a slight decline, consumption was relatively stable but stocks had manifestly gone down.

22. The representative of Finland said that production, consumption and trade in cheese were more or less stable. Among all the dairy products, only cheese consumption showed a continuously upward trend. Replying to an

EC question of whether the increase in domestic production was due to some internal measures or to an increase in exports, he said that prospects for cheese exports were limited since ceilings existed under bilateral agreements both with the Community and the United States and new markets were difficult to find. Exports had been traditionally 36 to 37,000 tons a year and in 1986 were abnormally low at 31,000 tons. It was, therefore, primarily due to an increase in domestic consumption that production was edging higher.

23. The Norwegian delegate informed that cheese production increased for the same reasons as butter production. In the first quarter of 1987, cheese output was up by 9 per cent, while consumption increased by 8 per cent. Stocks also increased in spite of exports having gone up during the same period. The forecast for exports was that they would increase over the year, although it was difficult to find new markets for all Norwegian exports. Answering the Community question of whether the 10 per cent increase in cheese production in the first quarter was a result of a reorientation of production, she said that partly due to a 4 per cent increase in milk production and partly due to a change in consumer preference, more cheese and less butter were being produced.

24. The representative of Sweden indicated that in the first quarter of 1987 production, consumption, exports and imports of cheese had all remained unchanged compared to the corresponding quarter of 1986. He undertook to answer the EC query of whether the cheese imported from the Community was re-exported to the EC or other countries at the next meeting in September.

25. The representative of Switzerland informed that cheese output in the first quarter moved up by 1 per cent from 28,700 tons to 29,000 tons. There was a decline in April and it seemed that the level remained stable in May and June. Imports during this period, however, increased by almost 8 per cent from 5,200 tons to 5,600 tons. Indications were that an increase of the same magnitude, i.e. 8 per cent, was expected in May and June. Exports in the first quarter had declined by 3.4 per cent from 14,800

tons to 14,300 tons, and were expected to fall by 4 per cent in the second quarter. Stocks were slightly increasing, but were relatively stable. Average export price was around US\$6,500 per ton f.o.b.

26. The spokesman of the Community said that cheese output in 1987 was expected to be at 4.36 million tons, up by 1 per cent over the level of 4.31 million tons in 1986. Consumption was likely to be 4.09 million tons in 1987, which would be 1.2 per cent higher than the level of 4.04 million tons in 1986. Stocks on 11 June 1987 in private storage, but financed by EC budgetary resources, were 103 thousand tons, comprising mainly Italian type cheeses. Exports in 1986 at 380 thousand tons were 8 per cent lower than their level of 410 thousand tons in 1985. Imports in 1986 added up to 98 thousand tons, mostly from Switzerland. Average export prices recorded were US\$1,100 per ton f.o.b. Referring to the first quarter of 1987, and information contained in the reply to Questionnaire 3, he mentioned that the coverage had for the first time been extended to twelve member countries. The broad trends were, nevertheless, the same as indicated earlier.

#### Report to the Council

27. In accordance with Article VII:2 of the Arrangement and Rule 22 of the Rules of Procedure, the Committee adopted its report to the Council. This was distributed in document DPC/C/46.

#### Date of the next session

28. The next session of the Committees will be held on 21-22 September 1987, subject to confirmation by the secretariat. The session of the Protocol Committee Regarding Certain Milk Powders will be followed by the Committee of the Protocol Regarding Milk Fat and the Committee of the Protocol Regarding Certain Cheeses.