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TARIFFS AND TRADE

International Dairy Arrangement

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INTERNATIONAL DAIRY PRODUCTS COUNCIL

Reply to Questionnaire 5 Regarding Information on Domestic Policies and Trade Measures

SWITZERLAND

Introductory note

Milk plays a traditionally important rôle in Swiss agricultural production. More than half of the Swiss farmers produce milk which represents approximately one third of the value of agricultural output. This product has the advantage of being a regular and reliable source of income for the country's small- and medium-size farms. Therefore, there are many which mainly depend on it, particularly in the mountain regions. Although the milk production is sufficient to cover the country's needs, Switzerland is both an importer and exporter of dairy products. In terms of quantity, the foreign trade balance for dairy products is nevertheless in surplus.

Taking into account very slow growth in demand for dairy products and the increase in yield per cow, government policy is aimed at adapting production to market possibilities and limiting losses incurred in that field. Those losses result from the fact that a fixed base price is paid to farmers for the milk delivered, and selling prices of the various dairy products do not always make it possible to cover that price and the other production costs. In principle, marketing of fresh dairy products does not entail any loss, but that is not the case with the other products such as cheese, milk preserves and to a greater extent butter and milk powder. The greater losses incurred in the manufacture and marketing of the two latter products explain why priority is given to the utilization of home-produced milk in other forms whereas butter imports are encouraged.

The milk production quota introduced in 1977 for each farm constitutes a new and more stringent measure designed to inhibit production increase. Producers who exceed their individual quota are penalized by price reductions on the surplus quantities amounting to as much as 80-85 per cent of the base price.

Lastly, the greater part of the deficit in the "dairy balance sheet" is covered by Federal subsidies and the proceeds from certain charges, in particular on imports of butter and other dairy products and also on imports of edible vegetable oils and fats.

A. Production

1. Support and/or stabilization measures

(a) Instruments of support or stabilization

At the production level, the principal support instrument is the base price which is guaranteed in principle for a maximum quota of deliveries by each farm.

So that the guaranteed producer price can be covered at subsequent stages of the dairying process, various measures are taken according to the product concerned:

- As regards fresh milk, marketing at a price corresponding to the price guaranteed to farmers is ensured by limiting imports to quotas from the free zones for supplying Geneva.
- For whole and skimmed milk powder, there is likewise no State intervention in the domestic market. Prices sufficient to cover the price guaranteed to farmers are similarly assured through measures at the frontier (see Section C).
- For butter, measures at the frontier are accompanied by intervention in the domestic market. Through the Swiss Central Office for Butter Supplies (BUTYRA) a subsidy is paid to butter-producing undertakings to enable them to sell their output without loss to the wholesale trade at prices fixed by the Federal Council. Subsidies are also granted to allow the sale at reduced prices of cooking butter or resolidified butter.
- With respect to cheese, the Swiss Cheese-Trade Union (USF), a semi-public body comprising cheese traders in particular, purchases at fixed prices which cover production costs the principal varieties produced in the country (Emmenthal, Gruyère, Sbrinz). The cheese is then resold at prices which must be as high as possible. In this operation, however, the USF incurs losses which are charged to the dairy balance sheet of the Confederation (see A.1.c). A similar system exists for Appenzell and Tilsit cheese. For trade measures supplementing internal provisions, see Section C.
- No support measures are applied within the country in respect of the other dairy products. (Regarding trade measures, see Section C.)

Stabilization measures for the dairy market have been applied in Switzerland for a number of years. Since 1958 milk producers have had to contribute to losses resulting from the marketing of dairy products through a deduction applied on the base price for milk. This deduction - which has

sometimes been as high as 6 per cent of the base price - together with measures to restrict fodder imports did not prove sufficiently effective to control production expansion, and accordingly as from 1 May 1977 the Federal Council introduced individual quota restrictions on milk deliveries. Under this system, a quota is allocated to each farmer in respect of which he will receive the guaranteed base price, i.e. Sw F 0.97/kg., less the collective deduction of Sw F 0.02/kg. For any quantities in excess of his individual quota, the producer has to bear an individual charge of 80-85 per cent of the base price for milk. Until 1 May 1981 farmers in certain mountain regions were exempt from this measure.

In June 1986, the Federal Council decided to reduce the total volume of the quotas by 75 million kg., i.e. by approximately 2.5 per cent. The reduction is being effected in two stages. There has already been a first reduction of 43 million kg. A second administrative reduction of milk quotas had been planned for 1 May 1987, but in early 1987 the Central Union of Swiss Milk Producers submitted a proposal concerning the implementation of this second reduction. The Federal Council has accordingly decided to refrain from the second reduction in order to allow agriculture time by its own devices to reach the target set by the Council.

There are certain other measures designed to orient the production and consumption of milk, in particular the premiums for non-marketing of milk, (contribution to cow-owners who do not deliver either milk or dairy products). In addition, measures are applied to encourage the sale of products involving smaller losses. The objective is to promote the processing of milk into cheese, which has a relatively high price in the domestic and international markets, rather than the manufacture of butter. In this connection, mention should be made in particular of the allowances paid in respect of milk processed into cheese, and milk from zones where ensilage is prohibited (promotion of cheese quality).

(b) Levels of guaranteed or support prices (February 1987)

Product	Price designation	Sw F per 100 kg.	\$ per 100 kg. ¹
Milk	Guaranteed base price to producer	97	63
Milk	Deduction from base price	2	1
Choice butter	Guaranteed price to producer (Butyra purchase price)	2,020	1,312
"	Price to wholesale trade	1,470	955
Cooking butter	Price to wholesale trade	1,172	761
Emmenthal and Gruyère cheese	USF purchase price	1,116	725
		1,113	723

¹ Exchange rate used: \$1 = Sw F 1.54 (February 1987)

(c) Amount of producer subsidies

The dairy balance sheet itemizes all government expenditure and receipts related to interventions on the dairy market. It was as follows for the 1985/86 dairy accounting period (1 November-31 October):

	Sw F '000	\$'000 ¹
<u>Total expenditure</u>	906,025	483,988
including mainly:		
- valorization of butter	267,068	142,665
- valorization of cheese	469,830	250,978
- contribution to producers delivering neither milk nor dairy products	79,240	42,329
- other measures	89,887	48,016
<u>Total resources</u>	906,025	483,988
including		
<u>Payments by the Confederation</u>		
out of:		
- general funds	582,707	311,275
- revenue from charges and price supplements	272,569	145,603
<u>Losses borne by producers</u>	50,749	27,110

¹ \$1 = Sw F 1.872 (1 November 1985-31 October 1986)

Direct production subsidies are paid only in the mountain regions in order to offset to some extent the unfavourable production conditions there. Accordingly, a contribution is paid to the costs of cattle-owners in mountain zones and in the Alpine foothills zone. This contribution is paid for the first fifteen units of cattle per farm, the annual amount being as follows:

	Sw F per cattle unit	\$ per cattle unit
		\$1 = Sw F 1.54
Alpine foothills zone	130	84
Mountain zone I	250	162
II	450	292
III	650	422
IV	870	565

For 1986 the total amount paid was Sw F 170.6 million.

(d) Average returns to producers

In order to determine the price actually paid to the producer, various supplements to and deductions from the base price must be taken into consideration (see section (b) above).

As regards deductions, as already reported above, producers participate collectively, through the deduction from the base price for milk, in losses resulting from the valorization of dairy products. With the introduction of the individual quota system for milk deliveries, this deduction has been lowered from Sw F 0.045 to Sw F 0.02/kg. of milk. In order to assist small producers, a quantity of 8,000 kg. (20,000 kg. in the mountain regions) is exempt from the deduction. In addition, a tax of Sw F 0.0065/kg. is charged on all commercial-milk deliveries by each producer. This is intended for the financing of special measures such as advertising and the management costs of the Union of Milk Producers.

The real return to producers is also affected by the following elements:

- In general, producers are members of co-operatives for the marketing of milk and dairy products, and profits accrue to them depending on retail sales. The additional amount thus received, varying according to the locality, comes to Sw F 0.005-0.03 per kg. of milk.

- For each kg. of milk processed into cheese, a supplement of Sw F 0.02-0.03 is granted throughout the year.
 - During the winter, i.e. from 1 November to 31 March, an additional allowance not exceeding Sw F 0.10/kg. is paid on milk coming from zones where ensilage is prohibited.
 - In addition, price deductions are made in respect of insufficient quality when the milk is paid for. They vary according to the quality defect of the milk and may be as high as Sw F 0.10/kg. of milk. In particularly serious cases, a decision may be made to prohibit deliveries.
 - The price indicated is the ex-dairy price.
2. Policies and measures of governments or other bodies likely to influence production, other than those listed under 1

Policy on fodder products

Under A.1(a), mention has already been made of measures affecting fodder imports. For decades, Switzerland has restricted fodder imports in order to help limit livestock production. To this end, imports of the principal fodder products, i.e. in particular feed grains and oilcake, are under quantitative restriction.

In addition, imports of all fodder products are subject to price supplements, in other words import charges.

Premiums for non-marketing of milk

In order to ease the situation in the milk market, measures are applied to encourage utilization of milk on the farm, and producers who do not deliver any milk receive contributions.

Since 1 July 1986, the premiums for non-marketing of milk amount to:

	Sw F	\$
		\$1 = Sw F 1.54
for the 2nd to the 10th cow		
- mountain zones II to IV	1,500	974
- other regions	1,400	909
for the 11th to the 20th cow	1,400	909
for the 21st to the 50th cow	950	617
for the 51st to the 100th cow	600	390
as from the 101st cow	400	260

B. Internal prices and consumption

1. Representative retail and wholesale prices on major domestic markets

Butter

Designation	Price in early 1987	
	Sw F/100 kg.	\$ ¹ /100 kg.
<u>Special table butter (Floralp)</u>		
- Price to wholesale trade in amounts of 10 tons or more	14.70	9.55
- Retail price (in amounts of 100 gr.) at dairies	18.50	12.01
<u>Cooking butter at reduced prices</u>		
- Price to wholesale trade (in blocks)	11.72	7.61
- Retail price (in 250 gr. packages)	14.20	9.22

¹ Exchange rate used: \$1 = Sw F 1.54 (February 1987)

Cheeses

Wholesale prices (Sw F and \$ per 100 kg., prime quality)						
Period of sale	Emmenthal	Gruyère	Spalen "couteau" and "montagne"	Sbrinz for grating	Tilsit Full 3/4 fat fat	
13.1.86-15.6.86 (\$1=Sw F 1.92)	Sw F 1,260 ¹ \$ 656	1,260 ² 656	1,200 ² 625	1,280 667	1,025 534	1,015 529
As from 16.6.86 (\$1=Sw F 1.54, February 1987)	Sw F 1,300 \$ 844	1,300 844	1,240 805	1,320 857	1,040 675	1,030 669

¹ Add Sw F 50 for cheeses more than 7 months old.

² Add Sw F 50 for cheeses more than 9 months old.

Consumer prices (average prices in 36 towns and 48 villages in February 1987, \$1 = Sw F 1.54)			
		Sw F	\$
Gruyère	per kg.	18.00	11.69
Emmenthal	per kg.	18.00	11.69
Fresh milk in bulk	per litre	1.43	0.93
Whole pasteurized milk	per litre	1.65	1.07
Whole cream	per 2.5 dl	3.38	2.19
Cream for coffee	per 2.5 dl	1.80	1.17

Selling price of milk powder, free at user's premises				
	Whole milk powder		Skimmed milk powder	
	Sw F/kg.	\$/kg.	Sw F/kg.	\$/kg.
February 1987 (\$1 = Sw F 1.54)	8.91	5.79	3.80	2.47

2. Factors affecting the trend and level of internal consumption

As the population has remained practically stable and economic growth has moderated in recent years, total and per capita consumption has remained virtually stagnant. There have however been divergent trends in demand for specific products because of changes in disposable income and in consumer habits: whereas for fresh milk per capita consumption has been declining somewhat in recent years, it has been rising for such products as cheese and yoghurt, where the elasticity of demand as affected by income is high.

3. Policies and measures and comments on their effects on consumption

The expenditure on the valorization of dairy products (see section 1 (c)) is designed inter alia to facilitate disposal of these products by lowering consumer prices. In addition, sales are encouraged by advertising, financed by a special tax paid by milk producers, together with various measures to improve quality (premiums for cheese, deductions from the milk price, etc.).

In order to ease the market situation for milk powder, price reductions are granted on fresh skimmed milk used on the farm to feed pigs. The reductions amount at present to Sw F 0.09 per kg.

Lastly, charges are applied on imports of edible oils and fats in order to help narrow the gap between prices of butter and of other fats. The proceeds of these charges are used to finance the valorization of dairy products. It should be noted in this context that while Swiss consumption is not very great for margarine, it is relatively high for vegetable oils.

C. Measures at the frontier

1. Customs tariff

Tariff heading No.	Description of products	Rate of duty		
		Statutory	Bound	Applied
(Sw F per 100 kg. gross)				
0401.	Milk and cream, fresh, not concentrated or sweetened:			
10	- milk	10	-	10
20	- cream	140	-	140
0402.	Milk and cream, preserved, concentrated or sweetened:			
10	- dried milk	75	50 ¹	50
20	- cream	140	-	140
30	- other	25	-	25
0403.	Butter:			
10	- fresh, unsalted	20	-	20
12	- salted, melted or in hermetically sealed containers	30	-	30

¹GATT binding: NB ad 0402.10. The binding is valid only for as long as a Government-purchase scheme for domestic whole milk powder remains in effect.

Tariff heading No.	Description of products	Rate of duty Statutory Bound Applied (Sw F per 100 kg. gross)		
0404.	Cheese and curd:			
	- soft cheeses:			
10	-- Danablu, Gorgonzola, Roquefort	50	25 ¹	25
12	-- Brie, Camembert, Crescenza, Italicco, Marscapone, Pont-l'Evêque, Reblochon, Ricotta-Romana, Robiola, Stracchino	50	30 ¹	30
13	-- Mozzarella	50	40	40
14	-- Other	50	-	50
	- hard or medium-hard cheeses:			
20	-- green cheese (cheese mixed with herbs)	40	-	40
22	-- Caciocavallo, Canestrato (Pecorino Siciliano), Fontina of the Aosta Valley, Parmigiano Reggiano, Grana, Pecorino (Pecorino Romano, Fiore Sardo, other Pecorino), Provolone	80	25 ¹	25
24	-- Asiago, Bitto, Brà, Fontal, Montasio, Saint-Paulin (Port-Salut), Saint-Nectaire	80	50 ¹	50
26	-- Cantal	80	60 ¹	60
28	-- Other	80	-	80
30	- Processed cheese (cheese in boxes, rindless cheese)	80	-	80
3501.	Casein, caseinates and other casein derivatives; casein glues:			
10	- Casein, caseinates and other casein derivatives	20	-	20

¹GATT binding: for the conditions for admission at the contractual rates for headings 0404.10/12 and 22/26: see NB ad ex 0404.10 and ex 0404.22 in the Swiss schedule of concessions of 1958 and NB ad ex 0404.28 in the Swiss schedule of concessions granted to the EEC in 1962.

2. Other import measures

(a) Fresh milk (tariff heading No. 0401.10)

Imports of fresh milk, not concentrated or sweetened, other than curdled milk (ex 0401.10) and likewise similar milk in hermetically sealed metal containers (ex 0402.30) are limited quantitatively to the quotas fixed for the free zones around Geneva (60,000 litres per day).

(b) Cream, skimmed milk powder, whey powder, buttermilk powder and condensed milk (tariff heading Nos. 0401.20, ex 0402.10, ex 0402.20 and ex 0402.30).

Imports of these products are charged price supplements, the proceeds from which are used along with other resources to finance the valorization of dairy products. At present the amounts of these supplements are as follows:

		<u>Sw F/100 kg. gross</u>
ex 0401.20	Cream, fresh or frozen	420/680 (depending
ex 0402.20		on fat
		content)
ex 0402.20	Cream, preserved, concentrated or sweetened	350/480 "
ex 0402.10	Skimmed milk powder	230
ex 0402.10	Whey powder	120
ex 0402.10	Buttermilk powder	120
ex 0402.30	Concentrated milk in containers of:	
	- more than 5 kg.	60
	- 5 kg. or less	85

(c) Whole milk powder (tariff heading No. ex 0402.10)

Authorization to import is subordinated to the requirement to take over a certain quantity of domestic product in proportion to the quantity imported. Since 1 February 1969, this proportion has been four parts of domestic product to one part of imported product.

(d) Butter (tariff heading No. 0403)

The Swiss butter market is regulated by the Swiss Central Office for Butter Supplies (BUTYRA) - a co-operative society under public law which holds the monopoly of butter imports.

It regulates purchases abroad so as to meet the country's requirements without hindering disposal of domestic butter. It levies a variable charge on imported butter which represents the difference between the cost price of the imported butter (including customs duty) and the wholesale price of domestic butter established by the Federal Council (in principle, cooking butter). The proceeds from this charge are used along with other resources for financing the valorization of dairy products.

(e) Cheese (tariff heading No. 0404)

Price supplements are charged on the following headings:

Tariff heading No.	Description of product	Price supplement as from 1.7.1983 (in Sw F/100 kg. gross)
0404.13	Mozzarella	220
0404.14	Soft cheeses:	
	- Roquefort with proof of origin	50
	- Other	240
0404.28	Other hard or semi-hard cheeses	230
0404.30	Processed cheese (cheese put up in boxes, bulk cheese)	
	- with an approved certificate to the effect that all the milk products used for manufacture were obtained in the exporting country	140
	- Other	390

These price supplements help to reduce somewhat the price difference between imported and domestic cheeses.

- A supplementary customs duty of Sw F 230 per 100 kg. gross is charged on imports falling within heading 0404.24 in excess of a quantity of 2,624 tons.
- These are arrangements with Austria, the EEC and Finland on a price discipline for exports to Switzerland of certain cheeses. To that end, a reference price (at present Sw F 480/100 kg.) has been established.

These arrangements apply to the following cheeses (tariff heading No. ex 0404.22/28): Butterkäse, Danbo, Edam, Elbo, Esrom, Fontal, Fontina, Fynbo, Galantine, Gouda, Havarti, Maribo, Molbo, Mimolette, Samsøe, Saint-Paulin, Tilsit, Tybo, Kartano, Kesti, Korsholm, Kreivi, Luostari, Saaristojuusto-Skärگردost, Turunmaa, as well as other cheeses having a water content in non-fatty substances of more than 57 per cent but not more than 67 per cent. A supplementary duty of Sw F 110 per 100 kg. gross is charged on imports of the above-mentioned cheese varieties which do not comply with certain conditions (production of an appropriate export certificate) or coming from countries that are not participants in the above-mentioned arrangements.

(f) Acid casein (tariff heading No. ex 3501.10)

Authorization to import is subject to the requirement to take over a certain quantity of domestic product in proportion to the quantities imported. Since 1 July 1985 this proportion has been two parts of domestic product to one part of imported product.

3. Export measures

(a) Cheeses

Given the relatively high level of the milk price fixed for Swiss producers, cheeses cannot always be sold either in the domestic market or in foreign markets at prices covering the cost of production. The sale of these products consequently results in losses, which are covered by the dairy account of the Confederation (see above). This policy does not involve any undercutting nor does it have the result that prices of Swiss products are lower than the prices of equivalent foreign products, whether in the domestic market or in export markets. The Swiss-Cheese Trade Association (USF), through which the major part of Switzerland's cheese production is marketed, is moreover required by statute to place its goods at the highest possible prices.

The amount of the losses incurred per unit of product depends on the situation in the various markets concerned.

The range of cheeses exported by Switzerland and covered by the system described above is very small:

- ex 0404.14 Soft cheeses, in particular, Vacherin Mont d'Or;
- 0404.20 Glarus herb cheese (Schabzieger);
- 0404.28 Emmenthal, Gruyère and Sbrinz (USF types) and also Tilsit and Appenzell;
- 0404.30 Processed cheese made from Emmenthal or Gruyère.

(b) Preserved milk

Since the selling prices are not sufficient to cover the base price for milk, subsidies are necessary to maintain traditional exports. They are paid on the basis of the milk used for the manufacture of these products (1986 exports: 500 t.).

D. Bilateral, plurilateral or multilateral agreements

(a) Butter

During the Kennedy Round, Switzerland entered into the following commitment:

"The Swiss Central Office for Butter Supplies (BUTYRA) will take due account, in its butter purchases, of sources of supply existing in the EEC. To the extent that quality, price and availability of the product permit, it will aim at an EEC share of not less than 20 per cent in Switzerland's total butter imports".

(b) Cheese

As regards Switzerland's cheese exports, it should be noted:

- that during the Kennedy Round, an agreement was concluded with the EEC under which the latter bound at a lower level the levy it applies on imports of Emmenthal, Gruyère, Sbrinz and Appenzell, subject to certain conditions including observance of minimum export prices by Switzerland. These minimum prices are index-related to the target price for milk in the EEC;
- that following the recent negotiations under Article XXVIII of the GATT concerning the withdrawal of certain concessions by Austria on products falling within heading No. 0404, an agreement was concluded providing for the rebinding of Austrian tariff rates for certain Swiss specialities (Sbrinz, Glarus herb cheese, etc.) and for the application of a tariff ceiling on Emmenthal, Gruyère, Tilsit and processed cheeses imported into Austria at prices corresponding to specified minimum levels;

- that the agreement concluded with the United States during the Tokyo Round provides for the allocation to Switzerland of a total annual quota of 6,500 tons of cheese, including 3,430 tons for Emmenthal and 1,450 tons for processed Gruyère (processed cheese);
- that an arrangement between Switzerland and Canada was concluded on 1 April 1981; this arrangement was approved by Parliament in the autumn of that year. It provides inter alia that Switzerland can export cheese to Canada within the global quota of 18 million pounds opened for imports from countries other than EEC member States. Switzerland, for its part, has undertaken not to grant subsidies that would result in undercutting the domestic prices of Canadian cheeses at the ex-works stage, provided that Canada obtains a like undertaking from Switzerland's principal competitors.

As regards Swiss imports of cheeses, there are arrangements with Austria, the EEC and Finland on price formation for the export of certain varieties to Switzerland (see C.2).

18 May 1987