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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 1.02/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. The application of the mutual aid measures led to a total reduction in milk quotas of 17 million kg. by the end of 1987. Total milk deliveries dropped by about 5 per cent during the second half of the year, largely as a result of poor fodder conditions. When adopting further decisions on agriculture, the Federal Council renounced a further administrative reduction of milk quotas at the beginning of 1988.

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 1988)

Product	Price designation	Sw F per 100 kg.	\$ per 100 kg. ¹
Milk	Guaranteed base price to producer	102	73.3
Milk	Deduction from base price	2	1.44
Choice butter	Guaranteed price to producer (Butyra purchase price)	2,140	1,538
"	Price to wholesale trade	1,537	1,105
Cooking butter	Price to wholesale trade	1,247	896
Emmenthal and Gruyère cheese	USF purchase price	1,163	836
		1,160	834

¹Exchange rate used: \$1 = Sw F 1.391 (February 1988)

(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 1986/87 dairy accounting period (1 November-31 October):

	Sw F '000	\$'000 ¹
<u>Total expenditure</u>	913,151	594,499
including mainly:		
- valorization of butter	265,832	170,068
- valorization of cheese	464,548	302,440
- contribution to producers delivering neither milk nor dairy products	83,781	54,545
- other measures	98,988	64,445
<u>Total resources</u>	913,151	594,499
including		
<u>Payments by the Confederation</u>		
out of:		
- general funds	571,816	372,276
- revenue from charges and price supplements	297,196	193,487
<u>Losses borne by producers</u>	44,139	28,736

¹\$1 = Sw F 1.536 (1 November 1986-31 October 1987)

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 1.391
Alpine foothills zone	130	93
Mountain zone I	250	180
II	450	324
III	650	467
IV	870	625

For 1987 the total amount paid was Sw F 201.9 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 February 1988, the premiums for non-marketing of milk amount to:

	Sw F	\$
		\$1 = Sw F 1.391
for the 2nd to the 10th cow		
- mountain zones II to IV	1,620	1,165
- other regions	1,520	1,093
for the 11th to the 20th cow	1,520	1,093
for the 21st to the 50th cow	1,020	740
for the 51st to the 100th cow	600	431
as from the 101st cow	400	288

B. Internal prices and consumption

1. Representative retail and wholesale prices on major domestic markets

Butter

Designation	Price in February 1988	
	Sw F/kg.	\$ ¹ /kg.
<u>Special table butter (Floralp)</u>		
- Price to wholesale trade in amounts of 10 tons or more	15.37	11.05
- Retail price (in amounts of 100 gr.) at dairies	19.50	14.02
<u>Cooking butter at reduced prices</u>		
- Price to wholesale trade (in blocks)	12.47	8.96
- Retail price (in 250 gr. packages)	15.20	10.93

¹Exchange rate used: \$1 = Sw F 1.391 (February 1988)

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 fat	3/4 fat
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	1,085 705	1,075 698
As from 1.3.88, \$1 = Sw F 1.391 (February 1988)	Sw F 1,360 \$ 978	1,360 978	1,300 935	1,380 992	1,135 816	1,125 809

Consumer prices (average prices in 36 towns and 48 villages;
in February 1988, \$1 = Sw F 1.391)

		Sw F	\$
Gruyère	per kg.	18.10	13.01
Emmenthal	per kg.	18.10	13.01
Fresh milk in bulk	per litre	1.53	1.10
Whole pasteurized milk	per litre	1.75	1.26
Whole cream	per 2.5 dl	3.53	2.54
Cream for coffee	per 2.5 dl	1.86	1.34

Selling price of milk powder, free at user's premises				
	Whole milk powder ¹		Skimmed milk powder	
	<u>Sw F/kg.</u>	<u>\$/kg.</u>	<u>Sw F/kg.</u>	<u>\$/kg.</u>
February 1988 (\$1 = Sw F 1.54)	9.04	6.50	3.80	2.73

¹ 25 per cent milk fat in the dry matter

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 product	Normal rate of duty
		Sw F/100 kg. gross
0401.	Milk and cream, not concentrated nor containing added sugar or other sweetening matter:	
1000	- of a fat content, by weight, not exceeding 1%	18.--
2000	- of a fat content, by weight, exceeding 1% but not exceeding 6%	18.--
	- of a fat content, by weight, exceeding 6%:	
3010	-- milk	18.--
3020	-- cream	140.--
0402.	Milk and cream, concentrated or containing added sugar or other sweetening matter:	
1000	- in powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5%	50.--
	- in powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5%:	

Tariff heading No.	Description of product	Normal rate of duty
		Sw F/100 kg. gross
0402. (cont'd.)		
1000 (cont'd.)	-- not containing added sugar or other sweetening matter:	
2110	--- milk	50.--
2120	--- cream	140.--
	-- other:	
2910	--- milk	50.--
2920	--- cream	140.--
	- other:	
	-- not containing added sugar or other sweetening matter:	
9110	--- milk	25.--
9120	--- cream	140.--
	-- other:	
9910	--- milk	25.--
9920	--- cream	140.--
0403.	Buttermilk, curdled milk and cream, yoghurt, kephir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavoured or containing added fruit or cocoa: - yoghurt:	
1010	-- containing cocoa	75.30
1020	-- flavoured or containing added fruit	110.--
1090	-- other	
	- other:	
	-- neither concentrated nor containing added sugar or other sweetening matter:	
9011	--- cream	140.--
9019	--- other	18.--
	-- concentrated or containing added sugar or other sweetening matter:	
9021	--- cream	140.--
9029	--- other	25.--
0404.	whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether	

Tariff heading No.	Description of product	Normal rate of duty
		Sw F/100 kg. gross
0404. (cont'd.)	or not containing added sugar or other sweetening matter, not elsewhere specified or included:	
1000	- whey, whether or not concentrated or containing added sugar or other sweetening matter:	50.--
	- other:	
	-- in powder, granules or other solid forms:	
9011	--- of a milk fat content, calculated by weight on dry milk extract, less than 40%	50.--
90 ⁹	--- other	140.--
	-- other:	
9091	--- of a milk fat content, by weight of the milk dry matter, of less than 40%	25.--
9099	--- other	140.--
0405.	Butter and other fats and oils derived from milk:	
0010	- fresh, unsalted	20.--
0090	- other	30.--
0406.	Cheese and curd:	
1000	- fresh cheese (including whey cheese), not fermented, and curd	50.--
2000	- grated or powdered cheese, of all kinds	80.--
3000	- processed cheese, not grated or powdered	80.--
	- blue-veined cheese:	
4010	-- Danish Blue, Gorgonzola, Roquefort	25.--
	G 6)	

G (6) Consolidated GATT duty: for the conditions of the admission at the contractual rates, see NB ad ex 0404.10 and ex 0404.22 of the list of GATT goods (RO 1959, 1881) and NB ad ex 0404.28 of the list of EEC concessions (RO 1962, 1733); new description for Mozzarella, Parmigiano Reggiano and Grana Padano, see results of agricultural negotiations of 1980 between Switzerland and the EEC (RO 1981, 388).

Tariff heading No.	Description of product	Normal rate of duty
		Sw F/100 kg. gross
34.5 (cont'd.)		
	-- other:	
4091	--- soft cheese	50.--
4099	--- other	80.--
	other cheese:	
	-- soft cheese:	
9011	--- Mascarpone, Ricotta Romana G 6)	30.--
9012	--- Mozzarella G 6)	40.--
9013	--- Brie, Camembert, Crescenza, Italico, Pont-l'Evêque, Reblochon, Robiola, Stracchino G 5)	30.--
9019	--- other	50.--
	-- hard or semi-hard cheese:	
9021	--- green cheese (cheese mixed with herbs)	40.--
9022	--- Caciocavallo, Canestrato (Pecorino Siciliano), Fontina of the Aosta Valley, Parmigiano Reggiano, Grana Padano, Pecorino (Pecorino Romano, Fiore Sardo, other Pecorino), Provolone G 6)	25.--
9023	--- Asiago, Bitto, Brà, Fontal, Montasio, Saint-Paulin (Port-Salut), Saint-Nectaire G 6)	50.--
9024	--- Cantal G 6)	60.--
9029	--- other	80.--
3501.	Casein, caseinates and other casein derivatives; casein glues:	
1000	- caseins	20.--

G (6) Consolidated GATT duty: for the conditions of the admission at the contractual rates, see NB ad ex 0404.10 and ex 0404.22 of the list of GATT goods (RO 1959, 1881) and NB ad ex 0404.28 of the list of EEC concessions (RO 1962, 1733); new description for Mozzarella, Parmigiano Reggiano and Grana Padano, see results of agricultural negotiations of 1980 between Switzerland and the EEC (RO 1981, 388).

2. Other import measures

(a) Fresh milk (tariff heading 0401.1000/3010, ex 0402.9110, 0403.1090, 0403.9019, ex 0403.9029, ex 0404.1000, ex 0404.9091)

Imports of fresh milk, not concentrated or sweetened, are limited quantitatively to the quotas fixed for the free zones around Geneva (60,000 litres per day).

(b) Dried milk, condensed milk, cream and cream powder

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:

Tariff heading No.	Description of product	Price supplement, Sw F/100 kg. gross, as from 1 March 1988
ex 0402.9110	Concentrated milk in containers of:	
ex 0402.9910	- more than 5 kg.	190.--
	- 5 kg. or less	215.--
ex 0403.9029	Other concentrated products	190.--
ex 0404.1000	Concentrated whey	190.--
0401.3020	Cream, whether or not preserved,	
0403.9011	not concentrated nor containing	
ex 0404.9099	added sugar or other sweetening matter	800.--/1,300.-- ¹
0402.2120	Cream, concentrated or containing	
2920	added sugar or other sweetening	
9120	matter, of a milk fat content	
9920	by weight of milk dry matter	
0403.9021		
0404.9019		
ex 9099		900.--/1,300.-- ¹

¹Scale according to fat content

(c) Whole milk powder (tariff heading No. 0402.2110, 2910, ex 0403.1090, 9029)

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. 0405)

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. 0406)

Price supplements are charged on the following headings:

Tariff heading No.	Description of product	Price supplement, Sw F/100 kg. gross, as from 1 March 1988
0406.	Cheese and curd:	
1000	- fresh cheese (including whey cheese) not fermented, and curd	290.--
2000	- grated or powdered cheese, of all kinds	290.--
3000	- processed cheese, not grated or powdered:	
	-- with an approved certificate to the effect that all the milk products used for manufacture were obtained in the exporting country	190.--
	-- other	440.--
	- blue-veined cheese:	
4091	-- soft cheese:	
	--- Roquefort with proof of origin	50.--
	--- other	290.--
4099	-- other	290.--
	- other cheese:	
	-- soft cheese:	
9012	--- Mozzarella	270.--
9019	--- other	290.--
9029	-- hard or semi-hard cheeses	290.--

- A supplementary customs duty of SW F 290 per 100 kg. gross is charged on imports falling within heading 0406.9023 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.

(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 cheese products (1987 exports: 500 tons).

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).