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International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN CHEESES

Twenty-Sixth Session

Draft Report

Introduction

1. The Committee of the Protocol Regarding Certain Cheeses held its twenty-sixth session on 16 June 1986.

Adoption of the agenda

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

Adoption of report on the twenty-fifth session

3. The Committee adopted the report on its twenty-fifth session. This was distributed as DPC/C/39.

Information required by the Committee

(a) 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 1986 to do so without further delay. They were also requested to submit information regarding the second quarter of 1986 by 15 September at the latest.

(b) Summary tables

5. The Committee reviewed the summary tables based on information provided by participants up to the end of 1985 and issued in document DPC/C/W/50/Rev.1. It also took note of the fact that a further revision of these tables would be undertaken by the secretariat as soon as the data for the first quarter of 1986 was available.

(c) 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.

Sales under derogations

7. The Committee took note of the oral information provided by New Zealand regarding its three sales of Cheddar cheese of lowest manufacturing quality displaying fruity, rancid flavours, at prices below the GATT minimum price. Two of these sales were made in January to Romania, i.e., 97.2 tons at the price of US\$770 per ton and 537.6 tons at the price of US\$805 per ton/f.o.b. The third consignment of 16.8 tons was shipped to Sweden in March at a price of US\$840 per ton/f.o.b.

8. The Committee also took note of New Zealand's desire to seek an increase in the annual quantities of its exports under Article 7:2 of the Protocol Regarding Certain Cheeses. In view of a significant increase in its production of cheese, from 85,000 tons in 1980/81 to 122,000 tons in 1986 and a change in its production patterns, it was imperative that the annual quantities unilaterally indicated in 1978 in the interpretative notes to the International Dairy Arrangement (page 64) were increased from 1,000-2,000 tons to 3,000-4,000 tons. A formal request to this effect would soon be forwarded to the secretariat since the volume of off-specification cheese had been growing and there was no possibility of its large scale absorption in the domestic market.

9. The spokesman of the EEC took the view that all sales under derogations were permitted in exceptional circumstances and that New Zealand had on many occasions exceeded the limits originally agreed for its exports under Article 7:2. New Zealand had thus violated the relevant provisions of the Arrangement. It had also defaulted in its obligation to notify in advance all such sales to the GATT secretariat. The EEC, therefore, reserved its position on this matter and considered that only the International Dairy Council was competent to take a decision on an amendment of New Zealand's original interpretative note. In agreeing to a limit of 1,000-2,000 tons of such sales in exceptional circumstances, the EEC had manifestly been quite generous to New Zealand's earlier demand. It now appeared that New Zealand was trying to capture markets off the beaten track and was abusing the derogation granted to it for small quantities of rotten cheese. In 1985, exports under this derogation had reached a total of 2,634 tons, while the derogation was meant for 2,000 tons only.

10. The representative of New Zealand, however, emphatically denied that his country had abused its rights under the Arrangement. The delay in furnishing advance information on sales under this derogation had occurred mainly due to difficulties in obtaining the necessary details from private traders. New Zealand had otherwise been quite transparent in providing all necessary information under the provisions of Article 7:2 of the Arrangement. He also pointed out that sales of low quality cheese were not covered by the Arrangement and in any case were directed to non-traditional markets where they did not compete with supplies from other traditional exporters. New Zealand was therefore not seeking a parallel market for its rotten cheese.

Review of the market situation for products covered by the Protocol

11. The representative of Australia informed the Committee that milk production (deliveries to dairies) during the first quarter of 1986 amounted to 1,477 million litres, which was 3.5 per cent above the quantity produced in the same quarter of 1985. This was mainly due to improved yields and good weather conditions. Milk production during the 1985/86 season was expected to be 6,060 million litres as compared to 6,038 million litres in 1984/85. Production of cheese at 42,349 tons in the first quarter of 1986 was 15.7 per cent higher than the level in the first quarter of 1985. Aggregate output in 1985/86 was likely to be 169,000 tons, showing an increase of 5.9 per cent over the level in 1984/85. Export availability during 1985/86 was expected to be around 71,000 tons, while actual exports were likely to be around 66,300 tons. Consumption of cheeses during 1985/86 at 104,000 tons was more or less the same as in 1984/85. Export prices were steady at US\$1,100 per ton f.o.b. In reply to a query by the EEC, she informed that production of non-Cheddar type cheeses had increased by 9.8 per cent, while the output of Cheddar type cheeses had increased by 1.8 per cent. However, exports of non-Cheddar cheese were only 6,000 tons as against exports of 60,000 tons of Cheddar cheese during 1985/86. The reason for an overall increase in cheese production was a drop in the production of skimmed milk powder and butter.

12. The representative of Switzerland reported that milk production fell by 2.7 per cent during 1985. Production was low in the first six months of 1986 as compared to the level in the same period of 1985 due to the milk quota system. As regards cheese, he indicated that output in the first quarter of 1986 showed a small increase and was expected to increase by 3 per cent during 1986 as a whole. Consumption of cheese was expected to be 1 to 2 per cent more than the level in the previous year. Cheese imports in the first quarter were also a shade higher, while stocks were expected to remain more or less stable.

13. The Swedish delegate said that milk deliveries to dairies up to May 1986 were 7.5 per cent lower. They were forecast to be 3 per cent less during 1986 as a whole. He further informed that cheese output in the

first quarter of 1986 was 7,000 tons less than the level in the first quarter of 1985. Aggregate level for 1986 was expected to be lower than in 1985. Consumption of cheese, on the other hand, had registered an increase of 3.5 per cent in the first quarter of 1986 compared to the level in the same quarter of last year. In reply to a question by the EEC, he informed that imports of cheese during 1986 were expected to aggregate 13,000 tons. Imports of low quality cheese were mainly being used for cheese fondue after further processing.

14. The representative of South Africa told the Committee that there was a seasonal drop off in milk production and the output of cheese in the first quarter of 1986 was nearly 4 per cent less than the level in the corresponding period of 1985. Domestic consumption had, however, increased substantially as a result of promotional campaigns, resulting in a significant draw-down in stocks from 10,749 tons at the beginning of January 1986 to 9,341 tons at the end of March.

15. The Polish delegate said that liquid milk output in the first quarter of 1986 was 667 million litres. Cheese production in the first three months of 1986 amounted to 27,050 tons, while domestic consumption added up to 25,915 tons. Imports, entirely from the Soviet Union, were 112 tons during this period.

16. The representative of New Zealand informed that production of milk in 1985/86 moved ahead of the level in average years. It was 0.5 per cent higher during the season up to March. The number of cattle increased to 2.29 million, which was considerably more than in the 1984/85 season. Production of processed milk fat up to March 1986 increased by 4.6 per cent to a level of 316.6 million kgs. This increased to 351 million kgs. in 1985/86 compared to 332 million kgs. 1984/85. Prices to farmers for milk fat had fallen from 400 ct./kg. to 225 ct./kg., or by 43 per cent. Cheese production at 41,400 tons in the first quarter of 1986 was marginally above the level in the same period of last year. Stocks had gradually crept up from 70,600 tons at end-December 1985 to 81,400 tons at end-March 1986. Exports at 27,200 tons during the first quarter were also up as compared to their level in the same period of last year. Domestic consumption had, however,

slightly tapered off to 5,400 tons in the first quarter as compared to 7,000 tons in the same period last year. Export prices ranged between US\$1,100-US\$1,200/ton f.o.b., which indicated a reasonable price stability. Commenting on the remarks made by the spokesman of the EEC that its share of the "Fetta" cheese in some North African markets was declining due to intense competition from New Zealand, he said that the drop in the EEC share was in fact due to a general contraction of that market. New Zealand's production of this type of cheese had increased due to a drop in Australian production of that cheese. In any case, market shares were not fixed and sacrosanct and his country was producing and exporting more because there was a market for it.

17. The delegate of Japan told the Committee that the guaranteed price of raw milk, which was determined at the beginning of each fiscal year, was lowered by 2.8 per cent in 1986. This reduction was the first since the beginning of the "deficiency payment system" in 1965. The stabilization "indicative price" was lowered by 4 per cent in view of the weak market situation due to stagnating butter demand and increasing stocks. Consequently, the transaction price of butter was lowered by 0.9 per cent. The stabilization indicative prices of other products, such as skimmed milk powder and condensed wholemilk, were kept at the same level as in the last year. The unit deficiency payment, reflecting the difference between the guaranteed price and the standard transaction price, was cut by 1.87 yen per kg. or by 9.4 per cent and was fixed at 18.03 yen per kg. However, the quantity eligible for deficiency payment was kept at the level of 2.3 million tons as in last year. In regard to milk production, he said that output at 7.4 million tons in fiscal year 1985 was 3 per cent higher than the level a year before. Of this, 4.3 million tons was used as milk for drinking, which was 0.5 per cent less than last year; and 3 million tons as milk for processing. As a result of the increase in the supply of milk for processing, butter and skimmed milk production respectively increased by 13 and 16 per cent. He further mentioned that the output of processed cheese was 2.7 per cent lower during the fiscal 1985 as compared to the level in fiscal 1984. On the other hand, imports went up by almost 3 per cent during 1985. Almost 80 per cent of domestic requirements were being met by imports. Average import price of natural cheese in 1984 was US\$1,532 per ton/c.i.f., but it had increased to around US\$1,600 to US\$1,700 per ton

in more recent months. Answering a question by New Zealand, he indicated that the guaranteed price for raw milk had been reduced in view of the cheaper feed import costs and not to curb milk production.

18. The spokesman of the EEC informed that cow numbers decreased by 1.5 million at the end of 1985 compared to the number at the end of 1983, just before the quota system was introduced. Expectations were that cow numbers would further decline by 1.7 per cent in 1986 or by 400,000 heads. In 1985, milk deliveries were 99.6 million tons or 1.7 per cent less than in 1984 and a further decline was expected in 1986. As regards the cheese situation in the first quarter of 1986 in the EEC countries, he said that production of cheese at 994,000 tons was slightly below the level of 999,000 tons in the first quarter of 1985. Consumption of cheese during this period had also receded to a level of 935,000 tons from 945,000 tons in the corresponding period of 1985. Both exports and imports edged lower than in the same period of 1985. In 1986, as a whole, however, production as well as consumption were expected to aggregate higher than their levels in 1985. Production at 4,333,000 tons in 1986 would be about 1.6 per cent higher than its level of 4,264,000 tons in 1985; and consumption was likely to increase from 3,902,000 tons in 1985 to 3,943,000 tons in 1986 mainly due to an increase in per capita consumption in the Federal Republic of Germany. Exports in 1985 at 480,000 tons were 60,000 tons less than in the previous year mainly due to a significant drop in deliveries of Fetta cheese to Iran, i.e., from 121,000 tons to 77,000 tons and in North Africa. Imports of cheese were around 100,000 tons to 105,000 tons, showing a small increase over the previous year. Stocks of Grana Padana and Parmigiano Reggiano cheese, especially in Italy, had increased from 56,000 tons in 1984 to 70,000 tons in 1985 and to 90,000 tons in 1986. Export prices ranged between US\$1,100 and US\$1,500 per ton, f.o.b. In reply to a question by Australia, he said that production of milk in the EEC countries was expected to decline by 3 per cent over a period of three years as a consequence of a number of political and economic decisions taken by the Commission. It was too early yet to determine the impact of the "Chernobyl" incident on the Community's overall exports, but it was evident that these would be affected in the short-run more as a result of the adverse propaganda launched by some

interested parties. In reply to another remark that the EEC restitutions had not led to increased demand but had resulted into depressed prices, he elaborated that adjustments in restitutions were made necessary due to erratic fluctuations in exchange rates. In spite of these adjustments, the EEC exports had suffered a decline in certain markets. He did not agree with the comment of the Canadian delegate that since the value of the Canadian dollar had declined by 9 per cent and the Canadian manufacturing costs had gone up by a similar percentage a fall of only 1.5 per cent in the value of the EEC currency did not justify an increase in its restitutions. He emphasized that in order to maintain its share on the international market and to meet price competition from other exporters, the EEC was obliged to increase its restitutions.

19. The representative of Uruguay indicated that cheese output in the first quarter of 1986 at 2,853 tons was about 10 per cent higher than in the same quarter of 1985. Exports were also substantially higher than in the corresponding three months of the previous year. Average export prices ranged between US\$1,500 and US\$2,695 per ton, f.o.b.

20. The Finnish delegate said that cheese output in the first quarter of 1986 was about 6 per cent less than in the corresponding quarter of 1985. Stocks remained unchanged at the end-December 1985 level. Data for exports were not available due to some technical difficulties, but indications were that export availability would be slightly lower. Consumption was more or less stable.

21. The observer of Canada indicated that the Cheddar cheese output in the first quarter of 1986 amounted to 26,281 metric tons, which was 11 per cent higher than the level in the same period last year. While imports were only 54 metric tons, exports totalled 2,620 metric tons. Domestic consumption was, however, 9.7 per cent down to a total of 22,137 metric tons in the first three months of 1986. Stocks registered an increase of 4.27 per cent during this period to a level of 40,818 metric tons. In regard to other cheeses, he mentioned that production at 24,683 metric tons in the first quarter of 1986 was almost 18 per cent more than the level in the corresponding period of last year.

Imports were 4,332 metric tons while exports totalled 156 metric tons. Domestic consumption of such cheeses had, however, gone up by nearly 18 per cent. Stocks rose by 3 per cent to 13,775 metric tons in the first quarter of 1986. Consumption of cheese in 1987 was expected to increase by about 4 per cent. Answering a question from New Zealand, he said that Canadian exports of cheese to Japan were subsidized at the market level and shipments were only in small quantities. In reply to another question by Australia he indicated that a quantity of 8,000 tons was projected for exports to Japan in 1986, falling to 5,000 tons in subsequent years. The representative of New Zealand also expressed his serious concern at the substantial acceleration in exports to the Japanese market, which was very price sensitive, and as such was bound to take less from other suppliers.

22. The EEC spokesman enquired from the secretariat whether the study requested by it earlier in March 1986 regarding the possible consequences of the United States Food Security Act (Section 1163 relating to export sales of dairy products) had been completed. In this connection it was recalled that the essential elements for such a study were still not available and in any case no definite agreement had been reached on this issue at the last meeting. The EEC spokesman, however, insisted that any supplementary information on the United States' new measures would be useful and the secretariat should make it available to the Committee at its forthcoming meeting in September. The Committee again took note of the EEC interest in such a study and the secretariat on its part undertook to continue to collect all the relevant information concerning the United States' new export measures.

23. Commenting on the United States dairy situation, the OECD observer underlined the recent relentless increase in milk yields in the United States. Milk deliveries in 1986 were expected to be higher, but were likely to be lower in 1987 and the forecast for 1988 and subsequent two years was for record high levels again. He thus considered the milk situation rather alarming, signalling danger on the world market. He was less sanguine about the forecasts that increased production would be substantially absorbed by increased consumption of dairy products. Regarding the production of cheese in the United States, he said that it

increased in 1985 to a level of 2.28 million tons and was likely to go up to 2.40 million tons in 1986. Consumption of cheese, on the other hand, was expected to decline somewhat in 1986 and a further substantial decline was forecast for 1987. Stocks had also declined in 1986.

Adoption of report to the Council

24. 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/40.

Date of next session

25. The next session of the Committees will be held on 22-23 September 1986, subject to confirmation by the secretariat. The session of the Protocol Committee Regarding Milk Fat will be followed by the session of the Committee of the Protocol Regarding Certain Cheeses and then the Committee of the Protocol Regarding Certain Milk Powders.