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TARIFFS AND TRADE

RESTRICTED

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International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN CHEESES

Twenty-Ninth Session

Draft Report

Introduction

1. The Committee of the Protocol Regarding Certain Cheeses held its twenty-ninth session on 16 and 17 March 1987.

Adoption of the agenda

2. The Committee adopted the following agenda:
- A. Election of Chairman and Vice-Chairman
 - B. Adoption of report on the twenty-eighth session
 - C. Information required by the Committee:
 - (i) Replies to Questionnaire 3
 - (ii) Summary tables
 - (iii) Other information
 - D. Sales under derogations
 - E. Review of the market situation for products covered by the Protocol
 - F. Oral report to the Council
 - G. Date of the next session

Election of Chairman and Vice-Chairman

3. The Committee elected Mr. P. Huhtaniemi (Finland) as Chairman of the Committee for 1987/88; no Vice-Chairman was elected.

4. The Chairman thanked the participants for electing him as Chairman of the Protocol Committees for 1987/88. He said that he would do his best in order to enable the Committees to work productively with the collaboration of the delegations and of the secretariat. He thanked, on behalf of the Committees, Mr. G.A. Stünzi, Chairman for 1985/86 and 1986/87, for all his contributions in the Chair of the Committees. Referring to the problematic situation in the world trade of dairy products, he pointed out that the deliberations of the Committees had their roots in the real world. The International Dairy Arrangement (IDA) represented one approach in coming to grips with those problems. The IDA had not removed all the difficulties but had, nevertheless, served a useful purpose. At present, the Protocols, or at least some of them, were under certain stress. However, such stresses and turbulences were unavoidable whenever one tried to tackle market imbalances by instruments mainly based on price disciplines. The Protocols had survived other turbulences in the past; they could survive new ones at present and in the future, provided that the Committees would find it possible to work in a spirit of co-operation, mutual accommodation and, when necessary, pragmatism. He said that during the Uruguay Round, spotlight would also be put on the IDA and its operation in practice. If the participants continued to believe that the Protocols were a viable, albeit partial, response to problems in world dairy trade, the Committees should be motivated to show that their work had remained relevant, useful and productive. He was confident that the Committees could meet this challenge successfully.

Adoption of report on the twenty-eighth session

5. The Committee adopted the report on its twenty-eighth session as amended. This was distributed as document DPC/C/44.

Information required by the Committee

(i) Replies to Questionnaire 3

6. The Committee reviewed the replies to Questionnaire 3 and requested participants who had not communicated such information in respect of the fourth quarter of 1986 to do so without further delay. They were also requested to submit information regarding the first quarter of 1987 by 15 June 1987 at the latest.

(ii) Summary tables

7. The Committee took note of document DPC/C/W/30/Rev.4 which contained information up to the third quarter of 1986. Further revision would be carried out when data for the fourth quarter of 1986 would be received from all the participants.

(iii) Other information

8. 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.

9. The Committee had before it two notes prepared by the secretariat, namely a note on the United States Exports of Dairy Products (DPC/W/68) and a note on the Chernobyl nuclear accident and dairy trade (DPC/W/69).

10. Referring to document DPC/W/69 on the Chernobyl nuclear accident, the representative of the EC noted that this document dated 11 March 1987 was distributed only five days before the meeting. He referred also to document DPC/C/W/32 prepared by the secretariat and regarding the interpretative statement by New Zealand concerning Article 7:2 of the Protocol; he noted that that document was dated 16 March 1987, the day of the meeting, and was available only in one of the working languages. He

urged the secretariat to prepare the documents as speedily as possible and to circulate them well in advance of the meetings in all the working languages of the Committees. Moreover, he recalled that the information communicated by participants was confidential and the secretariat should, in dispatching this information, make efforts to keep it confidential.

11. The secretariat (Mr. Østeras) apologized for having distributed certain documents late and only in one of the working languages. The translation services had been overworked lately and the usual secretary of the Committees had been absent for several weeks because of illness. With regard to the dispatching of documents in a confidential way, it would be checked whether instructions given to this effect had been followed. The secretariat would do its best in order to maintain the confidentiality of the confidential documents distributed.

12. The Committees wished that the notes by the secretariat should be prepared as speedily as possible and should be circulated well in advance of the meetings in all the working languages of the GATT. The Committees urged the secretariat to review its internal procedures in order to ensure that confidential documents would not be dispatched in a manner that would endanger the confidentiality of the information contained therein.

13. With reference to the note by the secretariat concerning United States exports of dairy products (DPC/W/68), the representative of the EC stressed that the new United States Dairy Export Incentive Program was causing his authorities great concern because most of the countries eligible to benefit from the programme were markets to which the EC traditionally exported dairy products. More specifically as concerned cheeses, the prices mentioned by the United States were US\$1,175 per ton f.a.s. for Cheddar cheese and US\$950 per ton f.a.s. for bulk cheese for processing. However, the United States had not mentioned the breakdown of the total quantity of 73,000 tons as between Cheddar cheese and bulk cheese for processing. He asked delegations and the secretariat whether they had any information about actual sales under the programme and the prices charged.

14. The representative of New Zealand indicated that as far as he knew there had been no sales so far of cheeses or other dairy products by the United States under that programme.

15. The secretariat (Mr. Østeras) indicated that it intended to continue to follow United States export sales of dairy products under the Food Security Act of 1985. Whenever the secretariat received further information, it would circulate it to participants as addenda to the document under discussion.

16. The representative of the EC stressed that his authorities feared that the United States might make offers far below the minimum export prices established under the Arrangement for the products covered by the three Protocols. Admittedly, Article 8 of each of the Protocols provided for possible emergency action when a participant considered that its interests were seriously endangered by a country not bound by the Arrangement. However, it might be too late to save endangered markets and consequently the interests of participants were liable to be very greatly prejudiced. He pointed out that the United States was bound by Article XVI of the GATT and by the provisions of the Subsidies Code. His delegation suggested that the International Dairy Council should inform the United States of the concern expressed by the participants and should invite it to respect the minimum prices established under the Arrangement.

17. The representative of New Zealand said that his delegation could endorse the suggestion of the Community.

18. The representative of Uruguay said that his authorities were concerned by the new programme announced by the United States, especially as Uruguay was a developing country which did not have the financial capacity to subsidize its exports of dairy products. The subsidized exports of the United States could cause serious prejudice to Uruguay's exports. He recalled that the United States had withdrawn from the Arrangement because it had felt that certain decisions concerning minimum

prices had effectively invalidated key provisions of the Arrangement. He stressed that participants in the Arrangement had undertaken to respect minimum export prices and that they should be conscious of their responsibilities.

19. The Committee took note of the paper by the secretariat on United States Exports of Dairy Products (DPC/W/68). It also took note of the comments and suggestions made and of the concerns expressed. It took furthermore note, in particular, that the suggestions made would be reflected in the oral report to the Council.

20. With regard to the note prepared by the secretariat on the Chernobyl nuclear accident and dairy trade (DPC/W/69), it was felt that it would be useful to discuss this note in the meeting of the Committee of the Protocol Regarding Certain Milk Powders as this accident had mainly affected trade of milk powders (see Spec(87)18, paragraphs 10 to 17).

Sales under derogations

21. The Committee took note of the information provided by New Zealand concerning its sales of cheese notified in relation to Article 7:2 of the Protocol Regarding Certain Cheeses in the fourth quarter of 1986 (DPC/C/W/26/Add.7). The Committee also took note of the register of sales made under derogation in document DPC/C/W/27/Rev.4. The register would be revised in the light of recent information provided by New Zealand and issued soon as document DPC/C/W/27/Rev.5.

22. The Committee had before it a communication by New Zealand relating to exports under Article 7:2 of the Protocol Regarding Certain Cheeses (DPC/C/W/31). It was recalled that the Committee had considered this communication in its previous meeting in December 1986. However, divergent views had been expressed and it had been decided to revert to the matter at the March 1987 meeting of the Committee (DPC/C/44, paragraphs 9 to 16). The Committee had also before it a note by the secretariat on the Interpretative Statement by New Zealand Concerning Article 7:2 of the Protocol (DPC/C/W/32).

23. In introducing the note DPC/C/W/32, the secretariat (Mr. Østeras) drew the attention of the Committee to paragraph 5 of the note and said that the secretariat tried to be very careful in the drafting of this note. The drafting history of the Interpretative Statement by New Zealand could be found in paragraph 6 of the note while in paragraph 7 attention was drawn to the fact that New Zealand's interpretative statement seemed to imply both a reservation or a commitment. The statement might, however, also be considered merely as a declaration of intent, as the tense of the verbs were kept in conditional and might consequently have to be read and interpreted in light of the situation as it existed at the time the negotiations were concluded. In paragraph 9 of the note, it was concluded that it appeared obvious that both quantitative and price aspects would have to be taken account of when discussing the appropriateness and effects of sales under derogation. In the last paragraph, it was noted that it might finally be useful to keep in mind that a minimum of safeguard clauses, or loop-holes were imperative to the effective operation of any commodity arrangement.

24. The representative of New Zealand recalled that this matter had been on the table for some considerable time. His delegation was now looking for a quick solution. He thanked the secretariat for the note prepared on this matter. He also recalled that total cheese production and the range of cheese specifications had increased since 1979. Consequently the volumes of aged, redundant and off-specification cheese had grown. Furthermore, the bulk of New Zealand cheese was produced for export and this was the only outlet for aged and redundant cheese. The quantities New Zealand expected to dispose of in terms of Article 7:2 represented around 3 per cent of total production. However, the interpretative statement by his country did not express in a proportionate basis the possible annual quantities of its exports under Article 7:2 of the Protocol. He pointed out that one of the aspects of the negotiating history that the note by the secretariat failed to catch was the speed in which this interpretative statement had been negotiated. Furthermore, it was negotiated at the last days of the negotiations in 1979. Turning to the legal interpretation, he emphasized that the key characteristic of this matter was that the legal

status of this interpretative statement was not clear. With regard to the possible options on the legal interpretation, his delegation preferred an option which was consistent with the spirit of realism and pragmatism that made his country able to manage problems in this extremely difficult sector of world trade. His delegation might be able with interested parties, to develop some formula that would accurately reflect the special circumstances that led to this interpretative statement on behalf of New Zealand without prejudicing either the fabric of the Arrangement nor the interests of other participants. His delegation was disinclined at this stage to seek any formal amendment to this Interpretative Statement and would rather recognize the primacy of Article 7:2 itself which referred to "small quantities". He said that the Committee might seek to incorporate in some appropriate way some type of statement which would preserve the fabric of the Arrangement, would recognize participants' legitimate rights to review the operation of this clause as it affected New Zealand given the special nature of the exceptional circumstances facing this participant.

25. The representative of the EC observed that the derogation under discussion had been allowed consciously, in full knowledge of certain facts. New Zealand's Interpretative Statement was an integral part of the Arrangement. The statement had been made at the request of one of the parties to the negotiations. For that party, the specification therein had no doubt been a condition for acceptance of the Arrangement itself. Apart from the Interpretative Statement, which appeared in the Appendix to the Arrangement, use of the derogation in Article 7:2 of the Protocol was linked to a number of conditions. One of those conditions was that the exported cheese must be below normal quality as a result of deterioration or production faults. Another was that participants exporting such cheese must notify the GATT secretariat, in advance, of their intention to do so. In respect of New Zealand's exports under Article 7:2, the latter condition had not been met. What was more, New Zealand's annual exports under the derogation had far exceeded the quantities indicated in the Interpretative Statement: the exports of that participant under the derogation had amounted to 2,816 tons in 1986 whereas they should normally have been of the order of 1,000 tons and, in exceptional circumstances, could have

amounted to 2,000 tons. One of the arguments advanced by New Zealand in its request (DPC/C/W/31) was that its cheese production had grown and that, as a consequence, the volumes of surplus aged cheese had also grown. He wished to point out that other participants, too, had seen their cheese stocks grow. Thus, in the last three quarters of 1986, the Community's cheese stocks had increased while New Zealand's had declined.

Over-production and aging of stocks were not valid arguments for exporting constantly greater quantities of cheese at prices below the minimum price. In other words, the fact of having stocks was no ground for entitlement to an automatic derogation. He pointed out that the United States had announced its intention of exporting 73,000 tons of cheese, much of it for processing. Moreover, the destinations of that cheese were the same as those of the deteriorated cheese exported by New Zealand. Thus, the Community was being threatened simultaneously by exports of the United States and of New Zealand. If the United States was to be asked to respect the minimum prices established under the Arrangement, the participants in the Arrangement must be able to show that the minimum price was being effectively respected. He appealed to New Zealand to limit the quantities of cheese sold under the derogation to the quantities originally specified. His delegation understood New Zealand's problems but the annual quantities exported by that participant under the derogation provided for in Article 7:2 should remain within reasonable limits, since the very wording of the derogation referred to "small quantities" of cheese. The quantities indicated by New Zealand in its request (DPC/C/W/31) were not considered small quantities by the Community.

26. The representative of Australia said that his delegation understood the problems faced by New Zealand. Since 1979, New Zealand cheese production had grown and the range of cheese specifications manufactured had also increased. Moreover, the internal market was small and the bulk of New Zealand cheese was produced for the export market. A solution to the problem might be found by increasing the volume which could be exported under derogation consistently with the increase in New Zealand cheese production between 1979 and 1986. With regard to notification procedures, he suggested that these procedures might be amended so as any sale of

cheese under derogation might be reported immediately after the conclusion of the sale rather than the quarterly notifications provided by New Zealand at present.

27. The representative of Uruguay stated that subsidized sales of cheese were causing his authorities concern, especially as countries that were subsidizing exports were financially strong and the exports of processed cheese by a developing country like Uruguay could be seriously prejudiced by such subsidized exports. He asked New Zealand whether it intended to look for other outlets for its aged cheese under the derogation in Article 7:2 of the Protocol.

28. The representative of New Zealand stressed that his country's cheese exports were not subsidized. As to possible new outlets for the cheese sold under the derogation, his delegation was not in a position to make commitments on the subject.

29. The representative of Finland speaking on behalf of the Nordic countries recalled that the Nordic countries had understood that the derogation had been a part of a package in 1979. The Nordic countries had also understood at the time of the negotiation and continued to understand now the specific circumstances which led New Zealand to propose this derogation and to make an interpretative statement concerning this derogation. The Nordic countries had noted that circumstances had changed since 1979 and noted also with concern that what had been intended to be an exception had become rather a routine operation and had implied certain transactions of relatively big volumes. He emphasized that the Nordic countries did appreciate the way the delegation of New Zealand had approached this issue and the pragmatic and constructive spirit in which this participant had forwarded its proposal. At the same time, the Nordic countries felt that the figures proposed by New Zealand were higher than what could be reasonably expected on the basis of any objective criteria. The Nordic countries were prepared to look at the figures but they were not quite convinced that a straight forward pro rata calculation on the basis of the increase in production figures would give the correct result. In

introducing the specific figures of 1,000 tons to 2,000 tons in 1979, the delegation of New Zealand had evidently at that time some kind of production prognosis in mind as well. These figures had not been indicated on the basis of what had been needed in 1979 but in order to meet these requirements at least for a few years ahead. In that sense, there might be some scope for considering slightly lower figures than one might arrive at by simply calculating pro rata on the basis of the production figures. The Nordic countries were prepared to consider a kind of approach suggested by New Zealand but they would like to have reasonable figures proposed in order to come to a final conclusion on the matter.

30. The representative of the EC recalled that the first destinations of New Zealand cheese exported under the derogation had been the countries of the EC and that the deteriorated cheese had been used in the Community as raw material for making processed cheese. He noted in passing that most of the Cheddar produced in the Community was used for making processed cheese. More recently, the Community had stopped importing deteriorated cheese from New Zealand because that cheese, imported at prices markedly below those for cheese produced in the Community, had completely undermined the prices of processed cheese in the Community. For that reason, inward processing traffic imports had been prohibited. It was now found that New Zealand, having ceased by the force of circumstances competing with Community producers within the Community, was indirectly competing on the export markets for processed cheese by supplying the processed-cheese producers of certain countries with deteriorated cheese at very low prices. As to the Australian suggestion, he noted that New Zealand's total cheese production had increased by only 12 per cent between 1979 and 1986. Nevertheless, New Zealand was asking for the original quantity of 1,000 tons indicated in its Interpretative Statement to be raised to 4,000 tons, or four times the original quantity. The Community was not opposed to changing the figures in the Interpretative Statement but the new quantities proposed by New Zealand in its request (DPC/C/W/31) were not acceptable for the reasons already stated. He had also requested New Zealand to provide clarification concerning the prices of the cheese, which differed widely depending on its destination and its state of deterioration.

31. The representative of New Zealand thanked the delegations for the constructive spirit in which they had approached this issue. His delegation had taken careful note of the points made concerning improved notification procedures and the extent of degradation of the cheese. With regard to prices, he said that export prices merely reflected variations in the quality of the cheese sold. He took note, with appreciation, of the statement made by Australia which had hit on the essence of the subject. The Committee ought to find a solution to a practical problem faced by one of the participants in terms of a subjective and collective assessment of the balance of advantages.

32. He stated that if the solution were to be more readily found in some increase in the overall limit, his delegation was prepared to compromise from the original request as stated in the communication DPC/C/W/31. He recalled that in that communication New Zealand was requesting an increase to 4,000 tons and, in exceptional circumstances, to 5,000 tons per year. His delegation was now prepared to accept as a compromise the figure of 4,000 tons as an upper limit to apply to this Interpretative Statement.

33. The representative of Australia said that according to the New Zealand Statistical Handbook, production of cheese had increased by 20.4 per cent. Based on this increase, he suggested that the maximum quantity which could be exported under derogation, in exceptional circumstances, might be raised to 2,400 tons per year.

34. The representative of the EC repeated that his delegation understood New Zealand's problems but it feared some serious consequences. For example, the United States intended to sell 73,000 tons of cheese to a number of countries. It might be reminded of its obligations under Article XVI of the General Agreement but if it were accepted that large quantities of cheese could be sold for processing under the derogation, the United States could argue that it was not infringing the provisions of Article XVI and that its prices were not appreciably lower than those of other suppliers, namely New Zealand, which was also marketing cheese for processing. That was why the Committee should not agree that large

quantities of deteriorated cheese for processing should be put on the market by New Zealand, especially as Article 7:2 of the Protocol referred explicitly to "small quantities". What was more, the Community was apprehensive about competition on the processed-cheese market, for, in the countries of the Community as in certain other European countries, the raw material used for making processed cheese was Emmental, which was much more costly than Cheddar cheese. He also pointed out that New Zealand had indicated that the increase in cheese production inevitably meant a longer period of storage resulting in a deterioration of stocks. However, New Zealand expected a possible decline in its 1987 output to 103,900 tons, i.e. to about 4,000 tons above its 1980 level, which had amounted to 99,800 tons. For those reasons, his delegation could not for the moment go beyond the maximum of 2,000 tons. Nevertheless, other considerations relating to a global solution in favour of all the problems in the dairy sector could cause the Community to change its position in the not too distant future.

35. The representative of New Zealand noted that according to the figures provided by the Dairy Board, cheese production in New Zealand had increased by 52 per cent. However, his delegation did not consider this issue as being simply an arithmetical problem. Because of the peculiar nature of New Zealand dairy production being uniquely dependent on world market returns, his country did face exceptional circumstances of a type that other countries did not have to face. He recalled that New Zealand exports of downgraded cheese under derogation had amounted to 2,816 tons in 1986. He also recalled that New Zealand's total output of processed cheese had been of the order of 6,500 tons for 1985/86; this figure simply did not compare with total EC processed cheese production of 325,000 tons in 1984. These figures gave a measure of the situation faced by his country in terms of its ability to dispose internally of aged and redundant cheese. He recalled that another approach to this problem would be to look at a somewhat less direct solution to it. He concluded by suggesting to keep this item on the agenda and to revert to it at the June 1987 meeting of the Committee.

36. The Committee noted the opinions expressed on the matter and it was felt that further reflections were necessary. It was agreed to revert to the New Zealand request at the next meeting of the Committee. Participants were invited to pursue, in the meantime, further consultations on the matter.

37. Referring to the question of the EC recorded in the report of the December 1986 meeting of the Committee (DPC/C/44, paragraphs 17 and 18) the representative of Poland stated that the quantities of cheese shown in the Register of Sales (DPC/C/W/27/Rev.3) had been sold by Poland to the EC in 1983 and not in 1984. The Committee took note of the clarification provided by Poland.

Review of the market situation for products covered by the Protocol

38. The representative of Switzerland said that production of cheese in the fourth quarter of 1986 had amounted to 29,000 tons, a decline by 17 per cent as compared to the previous quarter. Imports in the fourth quarter of 1986 had increased by 12.5 per cent as compared to the third quarter and reached 6,300 tons. Exports in the fourth quarter of 1986 had amounted to 17,600 tons, an increase by 6.7 per cent as compared to the previous quarter. Stocks at the end of December 1986 had been slightly higher than their level at the end of September 1986. He estimated that production of cheese in the first quarter of 1987 would increase slightly, imports would increase by 4 per cent and exports would remain unchanged. Exports prices had increased by about US\$50 per ton.

39. The representative of Sweden apologized for the delay with regard to the import statistics of cheese. Final figures for the fourth quarter would be forwarded soon to the secretariat. He informed that cheese production had decreased by 2 per cent in 1986 in relation to 1985 while consumption had remained stable at the preceding year's level. It was estimated that imports of cheese in 1986 would amount to 14,300 tons, a decrease by 4 per cent over the preceding year. Exports had decreased by

17 per cent in 1986 in relation to 1985. It was anticipated that domestic consumption of cheese would remain stable in 1987 while imports and exports might increase slightly.

40. The representative of Norway said that production and consumption of cheese had increased respectively by 5 per cent and 4 per cent in 1986 as compared to 1985. Stocks at the end of 1986 had been 6 per cent higher than at the beginning of the year. Exports in 1986 had remained unchanged at the preceding year's level while imports had increased by 7 per cent to 2,100 tons. It was anticipated that exports of cheese in 1987 would continue to remain stable. Export prices had increased somewhat.

41. The representative of Finland said that production of cheese had increased by 4,000 tons in 1986 to 83,000 tons. Total domestic consumption had increased from 46,000 tons in 1985 to 52,000 tons in 1986 while exports had decreased by 4,000 tons in 1986 to 33,000 tons. It was anticipated that the trends in production and consumption would continue in 1987. Average export prices in the fourth quarter of 1986 at US\$2,996 per ton f.o.b. had declined slightly as compared to the previous quarter.

42. The representative of South Africa noted that cheese consumption had increased by 10 per cent in 1986; this development was very encouraging.

43. The representative of Romania said that production of cheese had amounted to 87,400 tons in 1986, a decrease by 8,400 tons as compared to 1985. Production in the first half of 1986 had increased as compared to the corresponding period of 1985 and reached 45,700 tons. Exports of cheese in 1985 decreased to 5,400 tons as a result of the decrease in the production of milk and cheese. Exports in the first half of 1986 had amounted to 900 tons.

44. The representative of Poland said that production of cheese had registered a sharp fall in 1986 and amounted to 125,800 tons. As a result of the decrease in production, Poland had started to import cheese;

imports had amounted to 5,600 tons in 1986 the main origins being the EC, Switzerland, USSR and Finland. Exports of cheese had reached 1,100 tons in 1986 and had been destined almost exclusively to the United States under the historical bilateral quota. Stocks at the end of 1986 decreased to 4,700 tons as compared to 6,500 tons at the beginning of the year.

45. The representative of New Zealand said that production of cheese in 1986/87 had been seriously affected by the downturn in milk production. Production for the current season was now expected to total only 103,000 tons compared with 123,000 tons in 1985/86, a drop of 16.2 per cent. Virtually all of this reduction would be accounted for by Cheddar and similar varieties. With domestic consumption of cheese relatively unchanged at approximately 27,000 tons, the whole of the drop in production was expected to be reflected in reduced exports. Export sales for this season were expected to drop below 80,000 tons, the lowest level for many years. The reduced level of production meant that the New Zealand Dairy Board's stock and supply position for all varieties was now extremely tight; this would continue at least until September/October when production from the new season became available. All of the Dairy Board's current supply of export cheese was fully committed and the Board virtually had withdrawn from the market for new business in the meantime.

46. With regard to prices and the situation of international markets, he said that the reduction in supply from New Zealand and the tighter availability from certain other exporters had provided very favourable conditions to achieve a lift in export prices from the current very depressed levels. Cheese prices had advanced substantially from close to the GATT minimum price of US\$1,030 per ton f.o.b. in the middle of 1986 to over US\$1,200 per ton f.o.b. by mid-February 1987. This had been associated with the decline in the value of the United States dollar against major European currencies which had lifted EC and certain other export prices denominated in that currency. However, the comprehensive review and substantial increase in EC export refunds for Cheddar and other varieties which had taken place in mid-February had interrupted this

favourable trend, hopefully only temporarily. As a result, Community export prices had been forced back down into the range of US\$1,050 to US\$1,100 per ton f.o.b. New Zealand export prices were being held for the time being at US\$1,220 per ton f.o.b. against the hope that the Community and other exporters would return to pricing at these levels and reflect better the prevailing situation in the world market. In the particular case of Japan, the largest competitive import market for cheese, a significant lift and consolidation of prices had been achieved of the order of US\$100 per ton f.o.b. He concluded by stating that expectations were fairly promising for improvements in Cheddar cheese prices in international markets.

47. The representative of Japan, referring to the general situation of imports of dairy products, said that imports of dairy products in terms of milk equivalent in 1985 had been 6 per cent higher than in 1984 due to the increase of skimmed milk powder imports. Imports in 1986 had been 3.8 per cent lower than in 1985 due to skimmed milk powder imports having returned to normal levels. With regard to cheese, he said that cheese output in fiscal year 1985 had been at the same level as in the previous year. Imports of natural cheese in 1986 had been at the same level as in 1985. The average import price of natural cheese during 1986 had been US\$1,647 per ton c.i.f.

48. The representative of Bulgaria said that in 1986 cheese production had increased to 140,000 tons as against 129,500 tons in 1985. Exports, consisting mainly of white cheese from sheep's milk, had amounted to 23,100 tons, or about 16.5 per cent of total production, the principal destinations being the Soviet Union, Iran and Cuba.

49. The representative of Australia said that production of cheese in the October-December 1986 period of 63,300 tons had been about 2 per cent less than the same quarter in 1985 (64,600 tons). Production of Cheddar-type cheese for the October-December 1986 period of 47,500 tons had been down 6.7 per cent on the corresponding period in 1985; non Cheddar-cheese

production had increased by 15.3 per cent to 15,800 tons. This increase in production had been due to increased demand in the domestic market. Total cheese production for 1986/87 was forecast at 167,000 tons, down 1.9 per cent from the 1985/86 level; Cheddar-cheese production for 1986/87 would be down 7.4 per cent while non Cheddar-cheese production was expected to increase by 11 per cent. Consumption of cheese in 1986/87 was forecast at around 110,500 tons, up by 4.8 per cent on the previous season. Export prices in the period October to December 1986 had been a little above the GATT minimum export price. They had subsequently firmed and were now in the range of US\$1,150 to US\$1,200 per ton f.o.b.

50. The representative of EC said that cheese production had increased by 1 per cent in 1986 to 4.3 million tons. It was forecast that it would increase further by at least 1 per cent in 1987. The situation in the domestic market was quite good and consumption had increased by 2 per cent in 1986. A further increase by 1 per cent was forecast for 1987. Exports of cheese had decreased by 6 per cent from 410,000 tons in 1985 to 380,000 tons in 1986. Imports had amounted to 105,000 tons in 1986. Present prices for Cheddar cheese, between US\$1,050 and US\$1,100 per ton f.o.b., were considered as being rather weak.

51. The observer of Canada said that production of Cheddar cheese had increased by 1.6 per cent in 1986 to 111,000 tons. Domestic consumption of Cheddar cheese had been 106,800 tons in 1986, an increase of 4.3 per cent over 1985. Stocks at the end of calendar year 1986 had been at 34,700 tons, a decrease of 10.8 per cent compared to their level at the beginning of the year. Production of specialty cheese had increased by 20 per cent in 1986 to 121,900 tons. Domestic consumption of specialty cheese had been 141,400 tons in 1986, an increase of 19 per cent over 1985. Stocks at the end of 1986 had been at 10,700 tons, a decrease of 18 per cent as compared to their level at the beginning of the year. Cheddar cheese production was forecast to grow by 3 per cent in the 1987/88 dairy year, but exports would decline to 6,000 tons from the 1986/87 level of 8,000 tons. Specialty cheese production was anticipated to be 6 per cent higher in 1987/88 in relation to 1986/87.

52. The representative of Australia recalled that the Japanese Government had recently introduced new arrangements which would encourage domestic cheese production. As a major supplier of cheese to Japan, Australia was concerned with these new arrangements. His country had already raised this issue at the December 1986 meeting of the Committee (DPC/C/44, paragraph 27). The new arrangements would have the effect of increasing annual production of cheese by 4,000 tons to 6,000 tons. The market growth was only of the order of about 2,000 tons per year. The types of cheeses that Japan was expected to produce were Cheddar-type cheeses which would be directly comparable and compete with Australian types of cheese. Australia was concerned that the new arrangements would lead to a decline in Australian cheese exports to Japan.

53. The representative of Japan said that demand for natural cheese in Japan had been recently growing despite stagnation of demand for milk and dairy products in general, and it was hoped that production in this area would grow concomitantly. However, the raw milk used to make cheese was now subject to the deficiency payment system: it was a legal obligation under this system for cheese manufacturers to pay producers at standard transaction price for their raw milk used to make cheese, and the deficiency payment was paid to producers by the Government. However, the price of imported cheese had recently fallen considerably, due to the yen's increasing strength on exchange markets. As a result, domestic cheese manufacturers were unable to take over raw milk for cheese production, if they ought to purchase raw milk at the standard transaction price. For this reason, an arrangement now envisaged would deregulate milk used to make cheese from the deficiency payment system; deficiency payment by the government to producers would be abolished, and manufacturers would no longer be required to buy milk at the standard transaction price. It should be admitted that prices of imported cheese were now extremely low. Therefore, the new arrangement would provide a kind of limited measure to pay an additional payment for milk for cheese production, for a limited time, at a lower price level than under the present deficiency payment system. This arrangement sought to put domestic cheese on an equal footing

with imported cheese by lowering the level of protection and putting price supports outside the framework of the protection system, and it did not seek to modify the import system.

54. The representative of New Zealand said that the new scheme was an infortunate development in Japanese policy. He wished to make firstly some general observations. His delegation had been very struck by the comments about exchange rates and their impact on domestic costs. Japan faced enormous pressures for protectionism arising from an enormous trade surplus. The Japanese arguments that this was, in many cases, generated by macro-economic variables were, in the view of his delegation, entirely accurate. But Japan could not try to escape the specific implications of macro-economic adjustments with respect to a sector in which it was not competitive. The adjustments in the macro-economic area caused competitive problems for certain producers within the overall Japanese economy but Japan could not use this as a justification for creating trade restrictive measures against countries like New Zealand whose trade interests were seriously affected.

55. Turning to specific comments, the representative of New Zealand stated that Japan was a one of the major markets of his country for cheese and the proposed scheme continued to cause serious concerns to his authorities. His delegation took some comfort in the comments of the Japanese representative that the proposed measures were not intended to modify in any way the situation of imports into Japan of natural cheese for processing. It was the understanding of his delegation that 2.3 million tons of milk was set this year within the Stabilization and Support Program of Japan and that it was proposed that 200,000 tons to 230,000 tons of milk would be set aside for cheese production. He requested to the representative of Japan whether this quantity was going to come out of the 2.3 million tons or the 2.3 million tons were going to be increased which would mean an extension of the total Milk Support Program.

56. The representative of EC said that his delegation could endorse the concerns just outlined by the delegate of New Zealand. Japan was a very important market for the Community as well with a great potential, mainly

because consumption was still very low in that country. With increasing welfare there was scope for increased consumption. The Community would be very unhappy to see such an important market closed for its cheese exports.

57. The representative of Australia said that as a result of the increase in domestic production of cheese in Japan, imports from Australia could drop by some 2 to 4 thousand tons per year in the coming 4-5 years. Australian cheese exports to Japan which were presently at around 18,000 tons per year could be eroded in a few years to a very small quantity. Consequently, his authorities were very concerned and would like to have some reassurance from Japan that imports into Japan would not be adversely affected by these new measures.

58. The representative of Japan reiterated that the arrangement did not seek to modify the import system. In reply to the question of New Zealand with regard to the size of the quota which could benefit from the deficiency payment programme, the issue regarding the size of the quota to be set up for fiscal year 1987 was now being discussed in Tokyo in the Livestock Promotion Council. The legislation concerned stipulated that the Government was to decide on the quota after having heard the views of the Council. He expected that a decision would be taken on this issue by the end of March 1987. In order to help the Committee to understand the intentions of the Japanese Agriculture Ministry he wished to furnish the following clarifications. According to the draft budget for the deficiency payment programme for 1987, the Agriculture Ministry had, for the moment, set aside funds equivalent to 2.1 million tons as compared to 2.3 million tons for 1986. This meant that the Government intended to cut the quota by 200,000 tons. This amount equivalent to 200,000 tons should be meant for raw milk to be delivered and used for cheese production under the new cheese programme.

59. The representative of New Zealand thanked the representative of Japan for the clarifications provided. He noted that the fact that the total quota was not to be actually increased but that the raw milk was

to be deducted from the pre-existing total for cheese production was a very important point for his delegation.

60. The Committee took note of the information provided on the market situation and on the new Japanese measures and of the comments made.

Oral report to the Council

61. The Committee agreed that an oral report giving an account of its discussions at the present session would be submitted to the Council.

Date of the next session

62. The next session of the Committees will be held on 15-16 June 1987, subject to confirmation by the secretariat. The session of the Committee of the Protocol 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.