Committee of the Protocol Regarding Certain Cheeses

Fifteenth Session

Report

Introduction

1. The Committee of the Protocol Regarding Certain Cheeses held its fifteenth session on 27 September 1983.

Adoption of the agenda

2. The Committee adopted the following agenda:

1. Adoption of the report on the fourteenth session

2. Information required by the Committee:
   (a) Replies to Questionnaire 3;
   (b) Summary tables;
   (c) Other information

3. Review of the market situation for products covered by the Protocol

4. Review of the level of minimum prices for products covered by the Protocol

5. Other business

Adoption of the report on the fourteenth session

3. The Committee adopted the report on its fourteenth session. The report will be distributed as document DPC/C/21.

Information required by the Committee

(a) Replies to Questionnaire 3

4. The Committee reviewed the replies to Questionnaire 3 and requested members which had not yet communicated information for the second quarter
of 1983 to do so without delay. In addition, it was pointed out that replies to Questionnaire 3 relating to the third quarter of 1983 should reach the secretariat not later than 15 December 1983.

(b) Summary tables


(c) Other information

6. No other information was requested.

Review of the market situation for products covered by the Protocol

7. The representative of the United States estimated that cheese output in 1983 might be some 6 per cent above 1982 levels but, according to projections, only a slight gain was expected in 1984. Commodity Credit Corporation's stocks of cheese on 23 September 1983 at 408,000 tons had been up about 9 per cent from 1 October 1982. However, they had been significantly below the initial forecasts. A gain of only 2 per cent in Government stocks was anticipated by 1 October 1984 due to increased commercial use and larger domestic donation programmes. Foreign donations in 1984 would likely decline as no cheese was expected to be exported under the PL 480 programme.

8. The representative of the EEC estimated that cheese production might show an increase of about 1 per cent as compared with 1982. Domestic cheese consumption, which had increased constantly until 1982, might remain stable in 1983 or even show a slight decline. Total exports for the first half of 1983 had shown a small increase. Although a number of refunds granted for certain destinations had been discontinued, the export situation could be regarded as satisfactory.

9. The representative of Australia said that total production of cheese had increased in 1982/83. It had been estimated that total production for 1983/84 would remain at the level of 1982/83, namely about 160,000 tonnes. Production of Cheddar cheese was declining, whereas that of other varieties was increasing. As a result of shrinking demand and difficulties in exporting to certain markets, exports for 1982/83 had decreased considerably, falling to 47,000 tonnes. It was estimated that for 1983/84 some 62,000 tons of cheese would be available for export, of which some 57,000 tons would be Cheddar. Because of the problems experienced in 1982/83, end-of-season stocks had been higher than usual. Stocks on 1 July 1983 had been at 71,000 tons, compared with 62,100 tons on 1 July 1982. Consumption of Cheddar cheese was increasing more slowly than
that of other varieties. Thus an increase of 4.9 per cent in consumption of Cheddar cheese was expected in 1983/84, which would bring consumption up to about 62,000 tons, whereas consumption of the other varieties of cheese might amount to 42,000 tons — an increase of 15.6 per cent compared with 1982/83. Cheese imports, which had increased in 1982/83 by about 17 per cent, to reach 19,700 tons, might continue to increase in 1983/84 and reach a total of some 23,000 tons, making an increase of 16.5 per cent compared with 1982/83. He pointed out that measures had been taken to increase off-take on the domestic market. With regard to prices, there was strong competition particularly on certain markets of East Asia, such as Japan. Export prices for ordinary first quality Cheddar cheese were at present between US$1,300 and US$1,500 per ton f.o.b.

10. The representative of the United States said that his delegation wished to furnish some information on price quotes for Cheddar cheese in late August 1983. The EEC had offered first quality Cheddar cheese and second quality aged Cheddar cheese respectively at US$1,150 and between US$950 and US$1,000 per ton f.o.b. Offer prices by Australia, New Zealand and Canada had been at US$1,450 per ton f.o.b. for first quality Cheddar cheese and at US$1,000 for aged Cheddar cheese. Poland had offered first grade Cheddar cheese at US$800 per ton f.o.b. and second grade Cheddar cheese at US$500 per ton f.o.b.

11. The representative of Australia said that his delegation would check with the delegation of the United States on the sources of some of these prices. He pointed out that Australia had not been quoting at the levels mentioned by the representative of the United States.

12. The representative of Poland referred to his country's reply to Questionnaire 3 and pointed out that Polish cheese exports were marginal. Those exports were made mainly to the United States under the quota allocated to Poland. Average export prices had reached US$1,874 per ton f.o.b. during the second quarter of 1983. His delegation had no knowledge of market prices at the levels mentioned by the United States representative. He thought there was probably some mistake. He would make enquiries, however, and try to clarify the matter as soon as possible.

13. The observer for Canada said that his delegation was not aware of market prices at the level mentioned by the United States representative.

14. The representative of the United States underlined that he had mentioned price quotes. His delegation did not know whether actual sales had been made at those levels. However, price quotes did reflect a definite weakening in the market.

15. The representative of New Zealand said that according to some reports certain offer prices for Cheddar cheese were lower than the minimum price under the Protocol. He emphasized that such reports caused anxiety and
added that even if the quantities in question were marginal, they could have an important rôle in bringing the market down. He expressed the hope that explanations would be given to the Committee.

16. The representative of Hungary said that cheese production had increased during the first half of 1983, though at a lower rate than the previous year. Exports had decreased substantially during the same period, while domestic consumption had remained relatively stable. Stocks at the end of the first half of 1983 had been considerably greater than a year earlier.

17. The representative of New Zealand estimated that production of cheese might decline by about 20 per cent in 1983/84, in particular because of restrictions on market opportunities. Cheese consumption had been 27,000 tons in 1982/83, which was an increase of 5 per cent compared with 1981/82. The rate of increase was tending to slow down, however, and advertising campaigns were being conducted to promote cheese consumption. Export prices of ordinary good quality Cheddar cheese were between US$1,300 and US$1,400 per ton f.o.b.

18. The representative of Poland said that as a result of the increase in milk production, cheese output was rising. Nevertheless, domestic consumption needs being greater than production, his country was importing cheese. He reiterated that cheese exports were marginal.

19. The representative of South Africa said that cheese consumption had increased significantly in the second quarter of 1983, due to stockpiling by consumers before a price rise of 10 per cent which had taken place as from 1 July 1983.

20. The representative of Finland estimated that cheese production would fall to about 68,000 tons in 1983, from 74,000 tons in 1982. Domestic consumption might increase by 0.5 per cent to reach 40,000 tons, while exports might show a decrease of 4,000 tons to reach a figure of 29,000 tons.

21. The representative of Norway said that cheese production in the first half of 1983 had decreased by 6.3 per cent compared with the corresponding period of 1982. Nevertheless, output was still greater than domestic demand. Norway was experiencing increasing competition in traditional export markets, especially in Japan.

22. The representative of Sweden said that cheese production during the first seven months of 1983 showed a very slight decline compared with the corresponding period in 1982. Domestic consumption had increased by about 9 per cent in the first half of 1983, while exports had decreased by 23.5 per cent during the same period.

23. The representative of Switzerland estimated that cheese production would show an increase of 1 to 2 per cent compared with 1982. Imports
appeared to be remaining relatively stable. Exports, which had fallen during the first quarter of 1983, had picked up again later. It was hoped that for the whole of 1983 they would remain at the 1982 level. A certain stability could be observed in cheese consumption, though it was held back by very keen competition from pigmeat which was sold at extremely low prices.

24. The observer for Canada estimated that production of Cheddar cheese would amount to 96,000 tons in 1983, compared with 90,000 tons in 1982. Production of variety cheeses would reach some 84,000 tons in 1983, compared with 80,000 tons in 1982.

25. The Committee underlined that the world market situation for dairy products was serious and that for certain products, such as cheese, it might deteriorate further. It noted that the utmost vigilance was necessary and expressed the hope that the development in the market situation would not necessitate recourse to the provisions of Article 4 of the Protocol. The Committee underlined the decisive importance of strict observance of all the provisions of the Arrangement in order to keep market conditions as stable as possible.

Review of the level of minimum price for products covered by the Protocol

26. In accordance with the provisions of Article 3, paragraph 3, of the Protocol, the Committee proceeded to review the level of minimum price for products covered by the Protocol.

27. The representative of Australia recalled that in the previous years the Committee had had before it proposals to increase the minimum price. In his delegation's view, the argument for an increase in the minimum price was the fact that the costs faced by producers had increased. In Australia these costs had increased by some 15.5 per cent in 1982 and were expected to increase by some 12 per cent in 1983. Further, in the manufacturing sector of the dairy industry there had also been substantial increases and more increases were forecast for 1983/84. He recalled that in the previous year, some delegations had considered that world market conditions, characterized by increasing stocks and stagnant demand, did not justify an increase in the minimum price. However, in order to retain and improve the credibility of the Arrangement, the minimum price should be increased to a level which would represent a meaningful protection to those industries subject to the impact of world market changes, such as Australia's and New Zealand's industries. For reasons of balance of advantages and obligations and of equity, his delegation hoped that it would be possible to achieve some increase in the minimum price. Although there were fears that the minimum price might not, in some cases, be respected by private traders, the important point, in his delegation's view, was that the participants to the Arrangement themselves were resolved that this minimum price be respected. While his delegation was not making any detailed proposal at the present meeting, he noted that certain proposals to increase the minimum prices had been made in 1982. It was the
Australian delegation's belief that these could usefully serve as the basis for discussion at the present meeting.

28. The representative of the EEC noted that costs to producers had indeed increased. It was necessary, however, to take account of other elements, such as the trend of the international market situation and fluctuations in the value of the United States dollar on foreign exchange markets. He pointed out that production and stocks had increased, whereas international prices for dairy products had fallen. In addition, certain dairy products had even been exported at prices below the present minimum prices. Furthermore, since 1 October 1981 the United States dollar had appreciated by 29 per cent against the ECU, which might be interpreted as a proportionate increase in the minimum prices. In view of the situation on the international market, the prices which really obtained on that market and the appreciation of the United States dollar, his delegation was not at present able to consider an increase of the minimum price. If the international market situation were to improve, however, the Community would take the initiative of proposing such an increase.

29. The representative of New Zealand recalled that at the meetings of the Committees in September 1982, his country had made a specific proposal for increases in the minimum prices. He also recalled that with the exception of one participant, all participants had been prepared to support a compromise on minimum price increases. He regretted that a consensus had not been reached in September 1982, when circumstances had been rather different from what they were at the present. However, his comments should not be interpreted as meaning that in New Zealand's view there should not be an increase now. His delegation had nevertheless to recognize that there had been some evolution of the situation since September 1982. A review of the minimum price in terms of the criteria listed in Article 3, paragraph 3(b) of the Protocol indicated that costs faced by producers had significantly increased over the last year. New Zealand had maintained and still maintained that the levels of the minimum prices set in 1979 had been too low and that the adjustments made in 1981 had not been adequate. Referring to the comments made on the question of the appreciation of the United States dollar, he pointed out that his delegation could accept that point in part, but one must be cautious about placing too much emphasis on the question of currency movements. With regard to the situation on the international market, he considered that market demand was somewhat weaker and prices somewhat lower than the previous year. In conformity with the provisions of Article 3, paragraph 3(b) of the Protocol, the Committee should, in undertaking this review, take account in particular of the need to maintain a long-term minimum return to the most economic producers and the need to maintain stability of supply. He indicated that it was becoming increasingly difficult for New Zealand producers to produce milk at the returns they were receiving. The returns would be decreasing that year by more than 15 per cent in real terms. He added that in the longer term, the need to maintain stability of supply was an important factor. Finally, he recalled that the Committee should have regard to the
desirability of improving the relationship between the levels of the minimum price and the dairy support levels in the major producing participants. Having regard to that criterion, an increase in the minimum price was justified. In view of all these factors, with the exception of the market situation factor, his delegation could fully support the proposal made by the representative of Australia. He noted that reference had been made to the concept of the credibility of the Arrangement. In that context, his delegation wished to point out that participants had undertaken to take the steps necessary to ensure that the export prices of the products covered by the Protocol would not be less than the minimum price applicable under the Protocol. In his delegation's view, if, unfortunately, export prices should decline, they should remain at the minimum price applicable under the Protocol. If the Committee decided that year to increase the minimum price that year on the basis of the proposals made in 1982, the new minimum price would be very close to market prices, when the fall of those prices by US$200 to US$300 per ton in one year was taken into account. On the other hand, his delegation would not wish importing countries or countries which were not parties to the Arrangement to interpret a present decision to increase the minimum price as an attempt to forestall a possible trend of the market situation. The level of minimum prices should be considered as an absolute disaster level for the most efficient producers. In his delegation's view that was another aspect of the concept of the credibility of the Arrangement. He reiterated that several factors would justify an increase in the minimum price, in particular rising costs to producers. If a consensus could be reached in favour of increasing the minimum price, his delegation would, of course, support it. However, for the reasons already mentioned his delegation had decided to refrain from proposing specific increases in the minimum prices at the present session.

30. The representative of the United States said that his delegation did not believe that an increase in the minimum price was consistent with the current supply and demand situation. He considered that market prices might indeed weaken. The minimum price should not be brought up to market price levels. A minimum price at or near the market price level had a potential for disrupting free trade in the international market. His delegation did not believe that it would be appropriate to increase the minimum price at the present time.

31. The spokesman for the Nordic countries said that, considering the present market situation and currency fluctuations, the delegations of the Nordic countries believed that the minimum prices should be maintained at their present level.

32. The representatives of Japan, Poland, Egypt, Austria, Switzerland and South Africa said that the minimum price should remain unchanged.

33. It was noted that several factors which would justify an increase in the minimum price had been mentioned, in particular the rising costs to producers. It was also noted, however, that having regard to the
international market situation, an increase in the minimum price could not currently be considered desirable.

34. The representative of Australia said that his delegation was very disappointed with the result of the discussion. He had hoped that when the market situation improved the Committee would agree to an increase in the minimum price. His delegation would look forward to a discussion on that question at some later time in better circumstances and, hopefully, with better results.

Other business

Communication from the New Zealand Permanent Mission (DPC/C/W/12)

35. The Committee had before it a communication from the New Zealand Permanent Mission notifying sale of cheese for processing at below the minimum price (DPC/C/W/12).

36. The representative of New Zealand referred to Article 7, paragraph 2 of the Protocol Regarding Certain Cheeses, which provides that "The provisions of Article 3:1 to 4 shall not apply to exports, in exceptional circumstances, of small quantities of natural unprocessed cheese which would be below normal export quality as a result of deterioration or production faults. Participants exporting such cheese shall notify the GATT secretariat in advance of their intention to do so. Participants shall also notify the Committee quarterly of all sales of cheese effected under the provisions of this paragraph, specifying in respect of each transaction the quantities, prices and destinations involved." He also pointed out that when New Zealand had accepted the Arrangement, it had indicated in an interpretative statement that the annual quantities of its exports under Article 7, paragraph 2 "should normally be of the order of 1,000 metric tons and could, in exceptional circumstances, amount to some 2,000 metric tons". New Zealand produced over 100,000 tons of cheese a year and inevitably a small percentage of that output was below export quality and/or over age. Where possible, that cheese was disposed of domestically; but the domestic market could only absorb about 100 tons of down-graded cheese a year. In recent years, between 3,000 and 5,000 tons a year of such cheese had been exported to western Europe for processing. In 1983, prices of natural cheese of export quality had fallen substantially as a result of the strong price competition; that fall was reflected in prices which processors were willing to pay for down-graded cheese. The latter prices had fallen so much that towards the middle of the year New Zealand had found it necessary to have recourse to the provisions of Article 7, paragraph 2 of the Protocol. At that time his delegation had mentioned its intention informally to certain interested delegations and to the secretariat; it had also indicated its intention to furnish a communication for the September meeting of the Committee. The New Zealand Dairy Board, on the basis of discussions with the Government, had decided in June to sell the poorest quality processing-grade cheese at below the minimum price applicable under the Protocol, in line with the indication
given at the time New Zealand had joined the Arrangement. It had been the view of his authorities that the interpretative statement did in fact indicate the quantities involved and that therefore it would not be necessary in addition to notify in advance. His authorities had thought that, under the terms of Article 7, paragraph 2 of the Protocol, New Zealand had to notify the quantities involved; but subsequently, certain participants had brought to the attention of his delegation that they placed a different interpretation on the obligations of participants under Article 7, paragraph 2. His delegation had recently approached the Office of Legal Affairs of the GATT secretariat, which had replied that the latter interpretation was correct. Although his delegation had received the response with surprise and disappointment, New Zealand accepted the ruling of the Secretariat Office of Legal Affairs, because of the importance it attached to the Arrangement. Henceforth New Zealand would operate on the basis of notification before the exports and would also notify the Committee quarterly of all sales of cheese effected under the provisions of Article 7, paragraph 2. He recalled that the notification which was before the Committee (DPC/C/W/12) indicated that sales made between June and August 1983 had amounted to 456.6 tons. He estimated that, for the whole of the calendar year 1983, sales under Article 7, paragraph 2 of the Protocol would probably be closer to 2,000 tons than to 1,000 tons, the trend of the cheese market being such that it could be considered that those sales would be made in exceptional circumstances. In concluding his statement he reiterated that the cheeses in question were down-graded cheeses distinctly below normal export quality.

37. The representative of the EEC said his delegation was disappointed that since the beginning of June 1983, New Zealand had sold cheeses of inferior quality at prices well below the minimum price, without having notified the secretariat in advance. The Committee had met on 27 and 28 June 1983 and the New Zealand delegation could have informed it orally at that session. His delegation recognized the good faith of New Zealand, however, and accepted the explanations given concerning differences in interpretation. Nevertheless, his delegation wished to point out that the representative of New Zealand had expressed the opinion that even if small quantities of cheese were sold at very low prices, such sales could bring market prices down.

38. In reply to the last remark of the EEC representative, the representative of New Zealand referred to the notification in document DPC/C/W/12 and observed that the description of the product exported was sufficiently precise for a distinction to be made between those exceptional sales of grossly inferior-quality cheese and the sales of normal export-quality cheese. With regard to the point raised by the EEC representative concerning timing, it was because of the interpretation already mentioned that his delegation had not made any comment on the matter at the June session of the Committee. He reiterated that henceforth New Zealand would operate on the basis of notification before the exports and would also notify the Committee quarterly of all sales of cheese effected under the provisions of Article 7, paragraph 2 of the Protocol.
39. The representative of the EEC observed that some 2,000 tons of second-quality New Zealand cheese exported at prices below the minimum price would be processed and resold. He stressed that cheeses processed in inward processing traffic with raw materials not originating in the Community and subsequently placed on the market, should not be attributed to the Community.

40. The representative of Australia said that owing to a difference in interpretation of the provisions of the Protocol, New Zealand had not considered it necessary to give prior notification of its intention to export cheeses at prices below the minimum price. New Zealand had subsequently accepted the ruling of the Secretariat Office of Legal Affairs and his delegation now had no problem with the situation.

Other business

Report to the Council

41. 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

42. In accordance with the preliminary calendar, it was decided that the Committees will meet on 15 and 16 December 1983, subject to confirmation by the secretariat. The sixteenth session of the Committee of the Protocol Regarding Certain Cheeses will be followed by the sixteenth session of the Committee of the Protocol Regarding Milk Fat, which will be followed by the sixteenth session of the Committee of the Protocol Regarding Certain Milk Powders. The Committees will hold a joint meeting in conjunction with their sessions of December 1983, in order to continue the study of government measures to increase domestic consumption of dairy products.