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International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN CHEESES

Thirty-First Session

Draft Report

Introduction

1. The Committee of the Protocol Regarding Certain Cheeses held its thirty-first session on 22 September 1987.

Adoption of the agenda

2. The Committee adopted the following agenda:

A. Adoption of report on the thirtieth 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. Review of the level of minimum prices under Article 3:3(b)

F. Oral report to the Council

G. Date of the next session

Adoption of report on the thirtieth session

3. The Committee adopted the report on its thirtieth session. This was distributed as document DPC/C/47.

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 second quarter of 1987 to do so without further delay. They were also requested to submit information regarding the third quarter of 1987 by 11 December at the latest.

(b) Summary tables

5. The Committee reviewed the summary tables based on information provided by participants in Tables A and B of Questionnaire 3 in respect of the first quarter of 1987. The Committee took note of documents DPC/C/W/33/Rev.1 and DPC/W/73/Add.1.

(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. Data related to the second quarter of 1987 and also gave forecasts for the third quarter of 1987.

7. The Committee was informed that no significant sales had been made under the United States new Dairy Export Incentive Program adopted in February 1987. The secretariat was, nevertheless, closely following the programme and would keep the Committee informed of future developments. The Committee was also informed that the letter sent by the Chairman of the

International Dairy Council to the United States Mission in Geneva concerning the possible disposal of dairy surpluses abroad under the new Dairy Export Incentive Program had reportedly been forwarded to Washington for comments.

Sales under derogations

8. 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 second quarter of 1987 (DPC/C/W/26/Add.8). Due to some technical reasons, information on sales during the first quarter had been delayed for which the representative of New Zealand had apologized to the Committee. The representative of the EC, however, regretted such delays on the part of New Zealand and took the view that under Article 7 of the Protocol, participants exporting such cheese were obliged to notify the GATT secretariat in advance of their intention to do so. The representative of New Zealand reassured the Committee that while they had met the notification requirements on a quarterly basis, they would also endeavour to meet the prior notification requirements in the future.

9. The Committee took note of the register of sales issued earlier in document DPC/C/W/27/Rev.5 which, however, would be further revised in light of additional information provided by New Zealand.

10. In connection with New Zealand's earlier request for an amendment of the interpretative note relating to Article 7:2 of the Protocol (DPC/C/W/31), the Chairman then asked the representative of New Zealand whether bilateral discussions had led to a solution of the problem. The representative of New Zealand informed the Committee that while a pragmatic solution of this problem was still to be found, it was not pursuing its request for a modification of the interpretative note to the Protocol at that stage. Certain participants, nevertheless, expressed concern with regard to the use of this derogation by New Zealand and its failure to meet the notification requirements. The Committee took note of all these

comments and statements made. It also noted a statement by the representative of New Zealand that for the current year its exports of cheese under Article 7:2 would be well within the limits set by the interpretative note.

Review of the market situation for products covered by the Protocol

11. The delegate of Japan told the Committee that cheese production in fiscal year 1986 was 2.3 per cent above the level of the previous year. Imports of natural cheese in 1986 were at the same level as in 1985. Average import price of natural cheese during 1986 was estimated to be 7.5 per cent above the level of last year. Imports during the first half of 1987 were 11.5 per cent higher than the level in the corresponding period of 1986. This, in terms of absolute figures, meant an increase to 42,493 tons from 38,118 tons in the first half of 1986. Replying to the EC question of what barriers were being imposed to contain consumer demand, he merely confined himself in saying that consumer demand had increased both in absolute and proportionate terms. He would, nevertheless, provide a more satisfactory explanation at the next meeting.

12. The representative of New Zealand stated that cheese production in the major producing countries had generally increased in line with the further growth in domestic market consumption. In his country, production in the 1986/87 season had fallen by some 14,000 tons or by 11 per cent to a level of 113,200 tons. A recovery to the previous year's level of around 128,000 tons was, however, expected this year. At the moment Cheddar was being traded in the range of US\$1,200-US\$1,250 per ton f.o.b.

13. The Polish delegate said that cheese production in 1986 was higher than in 1985. The upward trend continued in the first half of 1987 when the level at 61,521 tons compared favourably with a level of 56,400 tons in the first half of 1986. Consumption closely followed the same trend and increased throughout. As far as trade was concerned, his country was a net importer of cheese from the USSR and the EC.

14. The representative of South Africa mentioned that in the absence of a price increase in July there was no stockpiling by consumers in the second quarter of 1987 and consumption of cheese was expected to be evenly spread throughout the year. In absolute terms it was expected to remain at the same level as in 1986. An estimated 2,000 tons of Cheddar cheese was likely to be imported in the third quarter.

15. The representative of Finland referred to an interesting development in his country that for the first time the consumption of cheeses (including curd) had overtaken consumption of butter. Whereas in 1983, 46 thousand tons of cheese and curd were consumed as against 59 thousand tons of butter, the trend was completely reversed in 1987 so that 55 thousand tons of cheese and 51 thousand tons of butter were expected to be consumed.

16. The delegate of Norway said that cheese production in the first half of 1987 at 41,220 tons was 7 per cent higher than the level in the same period last year due to increased milk production. Exports increased by almost 10 per cent in the first half of 1987, but indications were that the expected increase would be halted due to a recent closure of the Australian market as a result of the operation of tariff quotas. Other traditional export markets were the EC, the United States, Canada, Japan and Sweden.

17. The delegate of Australia, however, took exception to this view and said that the Australian market was not exactly closed, only additional tariffs were imposed once imports had exceeded a global quota of 11,500 tons. Currently, however, market imports were running 6 per cent below that of the quota and therefore there was still some scope for increasing exports to the Australian market.

18. The Swedish delegate indicated that production and exports of cheese in the second quarter of 1987 remained unchanged at the same level as in the second quarter of last year. Imports and consumption, however, increased during this period. In reply to an EC question as to how imports of off-quality degraded cheese, amounting to 500 tons last year, were being used in Sweden, he undertook to provide an explanation at the next meeting.

19. The representative of Switzerland said that cheese production, which had increased in the first and second quarters of 1987, dropped somewhat in the third quarter due to bad weather conditions. Imports grew by 7.5 per cent in the first quarter and continued to increase in July-August by about 6 per cent. Exports dropped by 7.4 per cent in the first quarter and during the last two months were about the same level as in the corresponding period of last year. Consumption was expected to increase slightly by about 2 per cent. Stocks were about 20,000 tons. Average export prices during the second quarter were about US\$6,004 per ton and currently had increased to US\$6,455 per ton f.o.b.

20. The representative of Uruguay told the Committee that production of cheese increased in the second quarter. Exports were more or less the same as in the corresponding period of last year. Consumption showed an increase from 1,400 tons last year to 2,400 tons in the current year and stocks were at the same level as last year. Maximum export price for soft cheese was US\$1,300 per ton and for hard cheese was US\$3,480, and the average export price worked out at US\$3,270 per ton f.o.b.

21. The representative of Australia indicated that cheese output in 1986/87 (July/June) was 176.9 thousand tons which represented an increase of 3.9 per cent over the previous year. Of the total, Cheddar output amounted to 123.3 thousand tons as compared to its level of 124.5 thousand tons in 1985/86 and non-Cheddar increased to 53.6 thousand tons from its level of 46.7 thousand tons in 1985/86. Forecasts for production in 1987/88 indicated an increase of 1.8 per cent to a level of 180 thousand tons. Cheddar was forecast to decline marginally to 123 thousand tons in 1987/88 while non-Cheddar was likely to increase by 6.3 per cent to a level of 57 thousand tons. Exports in 1986/87 were reckoned to be 57.2 thousand tons (Cheddar 50 thousand tons and non-Cheddar 7.2 thousand tons), and forecasts for 1987/88 were that exports would reach a level of 64.5 thousand tons with closing stocks at 73.6 thousand tons. Consumption of Australian cheese in 1986/87 totalled 113 thousand tons (Cheddar 67 thousand tons and non-Cheddar 46 thousand tons) and the forecast for consumption in 1987/88 was that it would marginally increase to a level of 116 thousand tons (Cheddar 67 thousand tons and non-Cheddar 49 thousand tons).

22. Commenting on the world situation, he expected that world supply of cheeses would remain tight during 1987/88, with demand continuing to be strong. New Zealand was expected to produce cheese sufficient only for its established markets and increased domestic consumption in the EC. The United States and Canada were expected to strengthen demand which would only be partially offset by production increases. The world cheese price had firmed up to between US\$1,150 and US\$1,200 per ton f.o.b.

23. The delegate of Bulgaria mentioned that cheese production, which in his country usually picked up around the second quarter, was 51,000 tons, i.e. 42 per cent higher than in the first quarter of 1987. This was, however, 3 per cent lower than the level in the same period last year. The forecast for total production in 1987 was that it would approximate the level of last year. In answer to an EC question of what quantities of cheese were being produced from cow milk and sheep milk, he promised to provide this information at the next meeting of the Committee.

24. The Hungarian delegate said that production of cheese in more recent years had increased from an average 50,000 tons a year to 54,000 tons a year. In the first half of 1987, the level at about 27,100 tons was slightly more than the level in the corresponding period of the previous year. Consumption, on the other hand, had increased more rapidly, from 40,000 tons to 46,000 tons a year; and the increase in the first half of 1987 was almost 10 per cent over the same period of the previous year. As a result of a growing disparity between production and consumption, exports had plunged from an average of 10,000 tons a year to less than half their level. In the first half of 1987, they reached a total of 2,000 tons only. Since his country exported only specialized varieties of cheese, average export prices were well above the IDA minimum price and ranged between US\$1,600-US\$1,700 per ton f.o.b. Imports were insignificant.

25. The spokesman of the Community indicated that production of cheese had tended to increase in the first half of 1987 due to increased diversion of milk to cheese production. The second quarter figure at 1.14 million tons was about 3.2 per cent higher than the level in the corresponding period

last year. Consumption also marked an increase, but the level of imports and exports remained more or less unchanged. Average export prices in the second quarter of 1987 remained slightly above the level of US\$1,200 per ton f.o.b. Production during 1987 as a whole was expected to be modestly 2 per cent higher than in the previous year, while preliminary estimates for domestic consumption in the current year showed an increase of 1 per cent. Exports during 1987 were likely to remain unchanged or slightly down on the level of last year. Intervention stocks, representing private storage schemes which were financed by EC funds, amounted to 130,000 tons of mainly Italian-type cheeses, at the end of August 1987.

26. The observer of Canada told the Committee that in 1986/87, production of Cheddar cheese was up by 1 per cent, while consumption increased by 6 per cent. In the case of speciality cheeses, both production and consumption increased by 7 per cent. Stocks of Cheddar at the end of June 1987 were about 35,000 tons, which represented a decrease of 12 per cent from the year before. Stocks of speciality cheeses were also slightly down. In the 1987/88 dairy year, it was expected that both production and consumption of Cheddar would increase by 5 per cent, while that for speciality cheeses the increase would be 8 per cent. Responding to a question by New Zealand, he informed that about 2,000 tons of Cheddar cheese were expected to be exported to Japan during 1987, half of which had already been shipped.

27. In the course of discussions, the EC representative proposed that member countries should be prepared to exchange information in a more positive way and to discuss policy issues with an intimate knowledge of their dairy problems. In this connection, it was necessary to evolve better working methods and to improve the usefulness of the documentation. The Chairman agreed that the working methods were not ideally suitable for a useful and a comprehensive survey of developments in the dairy market sector and the Committee could devote some time to a discussion of the working methods and improvements in the relevant documentation. The Committee took note of the various views expressed and the Chairman's suggestion that this issue should be included in the agenda for the next meeting.



28. The Committee took note of the comments made and of the relevant parts of the Status Report (DPC/W/73).

Review of the level of minimum prices under Article 3:3(b)

29. In accordance with the provisions of Article 3, paragraph 3 of the Protocol, the Committee reviewed the level of the minimum export price for certain cheeses.

30. The EC representative observed that while export prices of speciality cheeses were fairly good, prices of Cheddar cheese did not realistically reflect the current market situation. Competition was keen in the face of tight supplies. The price of Cheddar remained well above the agreed minimum and during the third quarter of 1987 firmed up to US\$1,200-US\$1,250 per ton f.o.b. He therefore proposed an increase in the minimum price from US\$1,030 to US\$1,110-US\$1,150 per ton f.o.b.

31. After a prolonged discussion, the Committee decided that the level of the minimum export price specified in Article 3:3 for certain cheeses be modified to US\$1,120 per metric ton, f.o.b. It was agreed that the decision would take effect at noon on 23 September 1987.

32. The Committee agreed that the decision would be duly recorded in the report and would be the subject of a procès-verbal signed by the Director-General of the CONTRACTING PARTIES to the General Agreement, certifying the entry into force of the new minimum price.

Oral report to the Council

33. 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

34. The next regular sessions of the Committees of the Protocols will be held on 14 and 15 December 1987. The session of the Committee of the Protocol Regarding Certain Cheeses will be followed by the session of the Committee of the Protocol Regarding Certain Milk Powders and then the Committee of the Protocol Regarding Milk Fat.

35. The Committee took note of a preliminary programme of future meetings up to the end of 1988.