GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED
DPC/C/50
22 March 1988
Special Distribution

International Dairy Arrangement

COMMITTEE OF THE PROTOCOL REGARDING CERTAIN CHEESES

Thirty-Second Session

Report

Agenda items A, B, F, G and H

1. As agreed by the Committee, agenda items A, B, F, G and H were discussed at a joint session of the three Protocol Committees and have been incorporated in DPC/F/54.

Transactions other than normal commercial transactions

2. The Committee noted that no transactions other than normal commercial transactions had taken place in this sector.

Sales under derogations

3. The Committee took note of the information provided by New Zealand concerning its sales of low quality cheese notified in relation to Article 7:2 of the Protocol Regarding Certain Cheeses in the third quarter of 1987 (DPC/C/W/26/Add.10).

4. The Committee also took note of the register of sales issued in document DPC/C/W/27/Rev.6 which, however, would be further revised in light of additional information provided by New Zealand.

5. The Chairman informed the Committee that Australia had indicated its intention to sell certain quantities of cheese under this derogation DPC/C/W/34), but had not yet communicated details of sales effected. The Committee took note of this information.

6. Certain participants expressed concern with regard to the use of this derogation by New Zealand. In this connection, it was stated that the automatic derogation for 1,000 tons had invariably been exceeded and such low cost supplies were directly competing with the sales of other participants on the same markets. Sales under this derogation by Australia were likely to further aggravate the situation.

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Review of the market situation for products covered by the Protocol

7. The representative of the EC said that cheese output in the Community, as in many other countries, increased in 1987 by a modest 2.5 per cent. This partially reflected the increase in domestic consumption and also the existence of a modified system of adjustment of intervention on milk powders and butter. Large quantities of milk were being diverted into the production of cheeses. Figures of exports during the first three quarters of 1987 showed an increase of 9.5 per cent, while imports oscillated around a figure of 76,000 tons, slightly below the figure of 79,000 tons last year. Average export price for classical type of Cheddar cheeses (Edam, Gouda) was reckoned between US$1,300 and US$1,350 per ton f.o.b.

8. The representative of Switzerland mentioned that cheese output in the first nine months of 1987 at 96,400 tons was 1.8 per cent below the level of 98,200 tons in the same period of 1986. Preliminary figures for the month of November suggested that while production of hard cheeses was stable at last year's level, that of soft or semi-hard cheeses somewhat dropped. Imports increased by 1 per cent in the first nine months of 1987 and in the third quarter rose more significantly by 6.5 per cent as compared to the level in the corresponding period of the previous year. Since November imports had somewhat slowed down due to the problem of "listériose". Exports in the first nine months of 1987 showed a marked decline of 9.7 per cent as compared to their level in the same period of last year. Consumption of hard cheeses had been stable or probably a little more than in last year, and stocks in the third quarter at 17,800 tons were normal. Average export prices had fluctuated between US$6,400 and US$6,500 per ton f.o.b.

9. Replying to the EC question of what measures had been adopted by Switzerland in the wake of the outburst of "listéria monocytogènes" bacteria and whether these measures had an impact on trade, he said that the Federal authorities had been criticized for the manner in which the media had been informed about these measures. His own knowledge was based on what the media had reported. An essential feature of these measures was that they were public health sanitary measures merely to prevent the spread of bacteria which had already resulted in a number of deaths. These measures had no impact on trade and were in no way discriminatory in nature. In fact, the first cheese to be banned and to be withdrawn from the market was a Swiss cheese "Vacherin Mont-d'or". Its sales were prohibited and stocks were destroyed on the evidence that it contained such bacteria. Some 350 tests had been carried out and more tests were in the offing for all kinds of cheeses on public health grounds. Nearly eighteen cheeses were found to contain this bacteria, of which eight were Swiss cheeses and ten were imported French cheeses. He wished to reassure, however, that there was, as such, no discrimination against cheese imports from France, even a large number of Swiss cheeses were affected by these public health measures. It was not possible to provide a precise indication of the extent of the fall in consumption of soft cheeses because it varied from place to place. It could, however, be conjectured that the overall consumption of soft cheeses had fallen dramatically in the month of

November. The question of "toleration limit" was still being examined by the Federal authorities and more details would be provided as soon as possible.

10. The representative of Sweden said that total consumption and imports of cheese were likely to be higher in 1987 than in 1986. Efforts to promote consumption and to reduce production in order to cut down the stock levels had been successful. Forecasts for 1988 showed that consumption of cheeses would continue to increase.

11. Replying to the EC question raised at the September meeting as to how the low quality cheese imported from New Zealand was being used, he said that it was mainly used for industrial purposes, such as for Pizza. There were no re-exports or trans-shipments of such cheeses.

12. The Norwegian delegate told the Committee that as a result of increased milk production, cheese output had also increased in 1987. Consumption was slightly higher compared to 1986 and stocks in September were more or less the same as last year. Imports and exports also remained unchanged.

13. The delegate of Finland mentioned that production of all dairy products was lower in 1987 due to bad weather conditions and poor yields. Cheese output at 80,000 tons in 1987 was only marginally higher than in 1986. Consumption at 52,000 tons, however, rose by 6 per cent in 1987 and was expected to increase further in 1988. Average export price in the third quarter of 1987 for speciality-type hard cheeses was US$3,089 per ton f.o.b.

14. The representative of South Africa said that despite a continued fall in milk production, cheese output in his country rose somewhat. Consumption of cheese, however, was expected to be down by 10 per cent for the first time this year.

15. The Polish delegate said that his country consumed more cheese than was produced domestically. The situation might improve next year when additional manufacturing capacity was expected to be installed. Only 1,000 tons of special type of cheese was being exported to the United States under a traditional quota, which could be waived if no actual exports were being made in any one year.

16. The representative of New Zealand believed that it was not easy to analyze the cheese market situation because of the diversity of products covered in this sector. As far as production was concerned, an overall expansion was recorded except in New Zealand where it fell by 11 per cent, reflecting the nature of its production cycle. Average export prices for classical type of Cheddar cheeses (Edam and Gouda) ranged up to US$1,400 and above.

17. The representative of Japan mentioned that the type of cheese consumed in his country was either made from home-produced natural cheese or imported natural cheese. In fiscal year 1986, cheese production was

2.3 per cent more than the level in fiscal year 1985. Imports of natural cheese in the first nine months of 1987 totalled 14 per cent higher than in the corresponding period of 1986. Average import price of natural cheese during 1986 was US$1,647 per ton c.i.f., which was 7.5 per cent more than in 1985, and from January to October 1987 was US$1,752 per ton c.i.f. As regards future demand for cheese, he could only indicate that it was constantly increasing and in the past ten years had almost doubled. This trend was likely to continue. As regards the types of cheeses imported, it was difficult to give any precise indication since different prices were paid according to quality and packing. Replying to the EC question of what type of cheese was being imported from the United States at a significantly higher price of US$9,340 per ton as against the most expensive Swiss cheeses priced at US$6,500 per ton c.i.f., he said that it was Mint Parmesan cheese.

18. The Bulgarian delegate said that due to adverse weather conditions the production of agricultural commodities and, in particular, dairy products was bad. Cheese output in the third quarter of 1987 fell by 12.7 per cent as compared to its level in the corresponding period of last year. The drop in the first nine months amounted to 6 per cent compared to the level in the same nine months of 1986. Exports showed a similar drop during this period. Replying to an earlier question by the EC, he informed that almost 70 per cent of cheese produced in his country was from cow milk and 30 per cent was from sheep milk. Similarly, two-thirds of total exports of cheese consisted of cow milk cheese. He was not in a position to give exact figures of export prices, but maintained that they were above the IDA minimum prices.

19. The representative of Australia told the Committee that production of cheese in the third quarter of 1987 was 40,600 tons, which was 3.8 per cent higher than the level of 39,100 tons in the same period of 1986. Output of Cheddar-type cheese at 27,800 tons was 7.8 per cent higher over the level in the third quarter of last year, while non-Cheddar cheese output decreased by about 3 per cent from 13,200 tons to 12,800 tons. It was expected that production of cheese in 1987/88 would total 180,000 tons, i.e. 1.4 per cent more than the level of 177,500 tons in the previous year. Of this, Cheddar was forecast to be slightly lower from 123,300 tons in 1986/87 to 123,000 tons in 1987/88 and non-Cheddar to increase by 5.2 per cent from 54,200 tons in 1986/87 to 57,000 tons in 1987/88. Exports in 1986/87 were 57,200 tons, comprising 50,000 tons of Cheddar and 7,200 tons of non-Cheddar cheese. In 1987/88 they were forecast to increase to 64,500 tons with closing stocks of 83,000 tons. Domestic sales of Australian cheese in 1986/87 were estimated at 111,400 tons, comprising 67,100 tons of Cheddar and 44,300 tons of non-Cheddar cheese. Consumption in 1987/88 was forecast to increase marginally to around 116,000 tons, of which Cheddar would be 67,000 tons and non-Cheddar 49,000 tons.

20. Discussing the world situation, he was of the opinion that supplies were likely to remain tight during 1987/88 while demand would continue to be strong. The world price had firmed up to between US$1,200 and US$1,350 per ton, as against the IDA minimum price for cheese which had been

increased from US$1,030 to US$1,120 per ton f.o.b. on 23 September 1987. Despite some increases in production, exports were likely to be somewhat lower due to increased domestic consumption in the EC, the United States and Canada.

21. The observer from the Economic Commission for Europe, outlining the cheese situation in the USSR, said that the output in 1986 was 3 per cent higher than in 1985 and was forecast to go up further by 2-3 per cent in 1987. Imports of cheese in 1986 amounted to 16.5 thousand tons, showing an increase of 1 per cent over the level in 1985. Exports, on the other hand, were 17 per cent higher to total 6.3 thousand tons in 1986.