As this is the first time that I have the honour of working with this Committee, it was my intention to observe and not to speak, especially since the documentation prepared by the secretariat is so comprehensive and thorough. However, a few delegations, in conversations in the corridor, expressed the view, as indeed the Chairman so kindly did himself, that the Committee might be interested to hear of the FAO studies which throw some light on the important matters under discussion - in particular the studies on the consumption effects of price changes. This is of course of greatest interest to producing countries, both from the standpoint of effects on volume of imports and on price. However, since the tropical agricultural products are scheduled to be discussed comprehensively in June, I will compromise by discussing today not all the agricultural products in which you are interested, but only coffee, tea and cocoa. I will leave the vegetable oils, tobacco, etc., for another occasion, although tobacco is of special interest and importance to many contracting parties, because of the great variety, complexity and the far-reaching effects of the national regulations, which not infrequently have international trade implications not apparent at first glance.

First, let me take up coffee, which is of such great importance to about twenty-five countries in Latin America and Africa. Our studies indicate that in high income countries the price elasticity is about -0.2 to -0.3 --- in other words, a 10 per cent decline in price is associated with an increase in consumption of 2-3 per cent. As you might expect, the price elasticity rises as we go down in the income scale. In medium income countries like Italy the price elasticity is probably of the order of -0.5; while in countries with a per caput income of only $100 per year, the price elasticity is -0.5 to -0.7, or possibly even higher. A study on coffee which we published about a year ago ...Commodity Bulletin No. 32 ... came to the conclusion that the removal of all taxes and duties could be expected to stimulate an increase in consumption of some 70-80,000 tons a year, or close to 4 per cent quantity moving in international trade. However, on further reflection I am inclined to put the figure somewhat higher - say, at around 100,000 tons. For one thing the removal of tax charges would probably also reduce trade margins; for another thing, I feel that the psychological effects of a substantial reduction in retail prices in the countries which have had very high prices would be very pronounced and would give a substantial stimulus to consumption.
It is necessary to analyse the situation in greater detail. It seems to me that countries can be grouped into four categories. First, there are the high income, industrialized countries with no quantitative restrictions on imports and without taxes and duties which have an appreciable restrictive effect on consumption. These countries account for about 1.7 million tons of coffee imports out of the 2.6 million tons moving in international trade, or about 65 per cent. The United States alone accounts for more than 5 per cent of the world total. In general, it seems to me that taxes which are less than 10 to 20 per cent of the value have no really substantial restrictive consumption effects.

The second category consists of high and medium income countries with substantial duties and other taxes which affect consumption, in other words, of over 10-20 per cent of the import value. The document prepared by the secretariat shows clearly the magnitude and importance of these imports. In 1960 the Western European countries in this category imported about 600,000 tons of coffee, roughly 21 per cent of the volume moving in international trade. As I said before, studies indicate that the removal of fiscal imports would probably result in increases in consumption of at least 70,000 tons, and probably by a somewhat higher amount. At current prices, this would mean an increase in payments to coffee producing countries of 50 to 75 million dollars a year.

At this point may I say a word about an important issue mentioned a few days ago by the representative of Nigeria, i.e., the need to assure that reductions in governmental taxes are passed on to the consumer. This is an important, but exceedingly complicated matter. I think you will find that conditions vary from commodity to commodity and from country to country. In some countries the structure of trade is such that competition can be relied upon to take care of this. In other commodities or in other countries there may be trade associations which tend to weaken price competition. In general, small charges are less likely to be passed on to the consumer - just as the trade, experience has shown, tends to absorb small price increases. But the failure to pass on to the consumer small price decreases is not always a complete loss to the exporting countries, since some of the profits may be used for advertising and other promotion work which stimulate consumption. The problem raised by the representative of Nigeria is real, but it is complex and not amenable to easy solution.

The third group consists of countries in Latin America, Africa and Asia, in most of which the per capita income is substantially lower than in the countries of the second group. During the last few years all these countries put together imported about 150,000 tons of coffee, or only about 6 per cent of total world imports. Many of these countries have various types of restrictions on imports - quantitative restrictions, high duties and taxes, etc. But the problem which these countries present is of course of a different order from that of the countries in the second category. In essence, the problem is one of low income, and the imperative if ugly necessity to curtail consumption in order to use limited financial resources for economic development. All of us must have heard with sympathy and understanding the clear and dignified statement on this statement made last week by the representative of Pakistan. Nevertheless it is necessary to bear in mind that in some of the countries in this very large group there are various types of restrictions, and these restrictions, which are likely to remain a factor for some time to come, should be looked at and discussed from time to time.
Finally, there are the countries with centrally planned economies. In view of the numerous reports during the last few years that standards of living are rising rapidly in these countries, they should offer substantial possibilities for expansion of imports. At present consumption of all the commodities which we are discussing is extremely low. I will not weary you with a lot of figures which show that there has not been a great improvement as compared with pre-war years, while per caput consumption in the first two groups has risen frequently substantially, not withstanding the rise in the "real" price of coffee. Suffice it to say that in recent years imports into the USSR and Eastern European countries allow per capita consumption of only 150-175 grammes, as compared with per caput consumption of about 7-9 kilogrammes in the United States, the Scandinavian countries and many other Western countries. If the USSR and the Eastern European countries would increase consumption to only 1 kilogramme per person a year, it would mean imports of around 350,000 tons of coffee, while actual imports in 1960 were around 60,000 tons.

As far as tea is concerned, our studies indicate that demand is rather inelastic in relation to average prices. It is difficult to generalize; but such data as we have been able to analyze indicate that in high income countries a 10 per cent reduction in prices is not likely to result in an increase in consumption of more than 2 or 3 per cent at most. The data indicate that the elasticity of expenditure is always higher than the elasticity of the quantity consumed; in other words, there tends to be an improvement in quality rather than an increase in quantity. However, in low income countries, or when prices are exceptionally high, the price elasticity is probably substantially higher. Recent investigations in Japan and India have indicated that under the income conditions of those countries, consumption is quite sensitive to changes in price and income.

Turning now to the actual conditions of the world tea economy, we find that high income countries without taxes and other regulations which substantially affect consumption account for 370,000 tons out of 550,000 tons moving in international trade, or roughly 70 per cent. Of course the United Kingdom is by far the largest consumer, accounting for about 250,000 tons, or almost half of the total world imports.

On the other hand high income countries with substantial taxes and other restrictions account for about 18,000 tons of imports, or roughly 4 per cent. The importance of fiscal imports is indicated by the following retail prices (in 1958) - although very many other factors enter into the picture: while in the United Kingdom and in the Netherlands the retail price of tea was approximately US$2 a kilogramme (in the United States $2.60), it was about US$7.50 in the Federal Republic of Germany, about US$5.50 in France and US$4.50 in Italy. It is extremely difficult even to guess at this stage how consumption would increase in this group of countries if all taxes and other restrictions were removed; but I am inclined to believe that the increase would be substantially greater than is indicated by the price elasticity figure mentioned previously.
Asia, Africa and Latin America account for 125,000 tons of imports, or roughly 23 per cent of world trade. Consumption has risen substantially in a number of low income countries, and I am inclined to believe that if there were no restrictions of any kind there would be scope for further substantial increases. Tea is after all the cheapest beverage after water. But our information on prices and taxes in many of these low income countries is not complete, and it is difficult to give precise quantitative estimates.

In the countries with centrally planned economies the situation for tea is not very different from that for coffee. Per caput consumption is low and there has been no substantial increase as compared to pre-war years, although there has been a considerable increase as compared with conditions ten years ago. The USSR imported 19,000 tons of tea in pre-war years, and about 20-25,000 tons in recent years; the Eastern European countries have increased imports from 4.5 thousand tons to 6.5 thousand tons. On a per caput basis consumption in these countries is only 80-90 grammes a year, as compared with 4.5 kilogrammes in the United Kingdom and 700 grammes to 2 kilogrammes in such poor countries as Sudan, Saudi Arabia, Ceylon, Malaya, Morocco, Iraq, etc. Yet tea drinking has a long and well-established tradition in these countries. Of course there has been an expansion in the USSR domestic production, and the import figures do not tell the whole story. Nevertheless, these figures indicate the magnitude of the potentialities for market expansion in the centrally planned countries, if only the central plans would allow for higher consumption of these so-called luxuries.

In the field of cocoa, the FAO has made many studies on the effects of price and consumption, which have been published from time to time. I refer in particular to Commodity Bulletin No. 27 and the "Current Situation" Reports presented to the Cocoa Study Group in 1961 and this year. Also, the problems of restrictive effects of taxes and quantitative restrictions have been of considerable interest to the Cocoa Study Group, and we have discussed these problems in the Group and directly with governments. Indeed last winter the Chairman of our Committee on Consumption (who is a Ghanian) and I had various discussions with the Italian authorities, and I was very glad indeed to hear the encouraging news given the other day by the Italian delegation, as will be the whole Cocoa Study Group when it meets at the end of this month.

As to the price effects on consumption, our studies indicate that in the most industrialized countries the price elasticity is -0.3 to -0.5. During the last three years, world consumption has responded significantly to the decline in prices as a result of the great increase in production. Indeed the response of 8-10 per cent increases in consumption has been very much in line with the expectations on the basis of our correlation studies.

Fortunately, in high and medium income countries taxes are of great importance only in a comparatively small number of countries. The data on this is set out clearly in the documents prepared by your secretariat. In general I am inclined to believe that a removal of these taxes would result in an increase in consumption of perhaps 40-60,000 tons a year. But of considerable importance are quantitative and other restrictions in the lower income countries,
and of course in centrally planned economies. An excellent example of the potentialities of increasing consumption in these countries is afforded by the recent experience of Japan, after it liberalized the allocation of funds for cocoa imports. Grindings of cocoa beans rose from an average of 3.6 thousand tons in 1952-56, to almost 10,000 tons in 1960, and may reach 20,000 tons in 1962. I could cite a number of other countries in the Far East where the potential demand for cocoa products is much greater than the effective (because restricted) supply, and the Cocoa Study Group will probably look into this during the next few months. However, in considering prospects in the lower income countries of Asia, Africa and Latin America, it must be borne in mind that in general consumption of cocoa products is practically insignificant in countries with a per capita income of less than about $100.

As to the USSR and the other centrally planned economies, their per capita consumption is still extremely low - only 250 grammes on the average, as compared with 1,250 grammes for Western Europe as a whole, which of course includes such low income countries as Spain, Portugal, etc. In the industrialized countries with higher income the average consumption is around 2 kgs. As compared with pre-war the 1960 per capita consumption was only 12 per cent higher in the Eastern European countries, while it was almost 50 per cent higher in Western Europe and 25 per cent higher in North and Central America and 25 per cent higher in Asia. Indeed, the per capita consumption of Eastern Germany was only one half of pre-war average. Even a per capita consumption in Eastern Europe countries of one half of the Western European average, would mean an increase in imports of about 120,000 tons ... from about 80,000 to around 200,000 tons ... which would mean an increase in the income of the cocoa producing countries considering the price effects of such an expansion in demand, of at least 100 million dollars, and probably substantially more. May I add that detailed information on recent consumption developments, prices, etc. can be found in a review of the Current Situation dated 1 April 1962, which I would be glad to send to members of the Committee.

I hope, Mr. Chairman, that this review of the current conditions and the potentialities with regard to these commodities has been of some interest to the Committee. We have made some progress in removing restrictions; but there are still very considerable potentialities for future expansion of consumption through the removal of restrictions and impediments.