Note on Oilseeds and Vegetable Oils by the United Kingdom Delegation

N.B. Owing to the absence of detailed statistics it has not been possible to cover in this paper the interests of other non-Six countries. The following countries have, however, substantial interests which are understood to be generally the same as those of the British dependent territories in these commodities: Argentine, Ceylon, India, Indonesia, Malaya, New Guinea and Papua, Philippines, United States, and to a lesser extent Brazil and Canada.

1. The oilseeds and vegetable oils which are of greatest importance to the exports of the Overseas Territories both of the Six and of the United Kingdom are:

   (i) groundnuts and groundnut oil;
   (ii) copra and coconut oil;
   (iii) palm oil; and
   (iv) palm kernels and palm kernel oil.

2. These products are in many uses in close competition with each other as well as with other vegetable and non-vegetable oils produced elsewhere, notably soya bean oil, cotton seed oil, sesame oil, tallow, olive oil, rape seed oil, whale oil, etc. Further the end products compete with other products, i.e. margarine with butter, shortening with lard, soap with soapless detergents.

3. The Six's imports of all oils and fats, about 2 million tons (oil equivalent), are almost a third of total world imports of around 6 million tons. Within this total almost 1.2 million tons are imports of the four products mentioned above or about 40 per cent of the world imports (about 3 million tons) of these products. Nearly 500,000 tons of this comes from their own Dependent Overseas Territories and about 250,000 tons from the Commonwealth, mostly from British Dependent Overseas Territories.
4. Oilseeds are to be imported into the Common Market duty free, but the tariff on vegetable oils has not yet been decided (List G). The arithmetic average of present duties in Member countries is, however, about 12 per cent and the adoption of a tariff at this level would give a very substantial preference to the Dependent Overseas Territories of the Six. But if, as has been rumoured, the rate is fixed even higher than this the position will be even more serious for other exporting countries. Both oils and oilseeds are included in Annex II to the Treaty of Rome so that the way has been left open for the application of the agricultural provisions of the Treaty to these commodities.

General effects of the establishment of the Common Market on Trade in these products

5. The general effects of the establishment of the Common Market on outside exporters of these products, including the United Kingdom Dependent Territories, are likely to be of two kinds:

(a) As regards oils, should a high Common Market tariff be established, this will effectively exclude outside oils to the gain partly of oil exports from the Dependent Overseas Territories of the Six and hence of their oilseeds industries, but more especially to the crushing mills in the Metropolitan countries themselves which will, in consequence, be more fully employed. In this case, however, there is also likely to be a larger import of oilseeds by the Six which may partly offset the lower import of oils. An advantage will also be given to European producers of oils such as olive oil and rape seed oil.

(b) Although oilseeds will be imported into the Common Market duty free, both oilseeds and vegetable oils are included in Annex II of the Treaty. There are several indications that there is a probability of a managed market in these commodities, especially the existing régime in France by which that country provides a protection in its markets for its overseas territories. If this happens it is probable that the whole of the Associated Overseas Territories' production will be absorbed before outside supplies are allowed into the Common Market, causing diversion of trade. Moreover, the prices offered within the Common Market, together with the guarantee of increased markets for their seeds, will encourage increased production of oilseeds in the Six's own Dependent Overseas Territories, further reducing the share of the market available to other producers.

Groundnuts and Oil

6. Over the last few years the Six Common Market countries have imported somewhat over 350,000 tons in oil equivalent of groundnuts and groundnut oil. Of this over 200,000 tons has come from their own Dependent Overseas Territories,
about 50,000 tons from United Kingdom Dependent Overseas Territories and about 100,000 tons from other outside suppliers. The Six take virtually all the exports of their own Dependent Overseas Territories (most of which is accounted for by France's imports from French West Africa - Senegal) while the greater part of the exports of the United Kingdom's Dependent Overseas Territories are absorbed in the United Kingdom and on the Continent of Europe. Admittedly there is likely to be some increase in the consumption of oils and oilseeds (including groundnuts) in Europe as a whole as time goes on, but output is also increasing in most of the main producing countries. For instance in the last two years the production of groundnuts in French West Africa has been rising steeply and Nigeria's output is also growing. In oil equivalent French West African exports are estimated to have been over 250,000 tons last year and availabilities are expected to be nearer 350,000 tons this year. Most observers believe that this higher figure will at least be maintained in the long run and production will probably rise even more. Last year France imported about 240,000 tons from French West Africa at the guaranteed price (about 25 per cent above world prices) and this year she has promised to take 295,000 tons. On the other hand French groundnut oil consumption totals only about 270-275,000 tons and it can be increased in the short run only if other oils and fats are more or less forcibly displaced. Potentially, therefore, likely increases in consumption in the Six can be taken up by increased production in the Associated Overseas Territories.

7. It is clear therefore that there is already a surplus of groundnuts from the French Dependent Overseas Territories over and above France's total consumption and that this is likely in the future to grow larger. There will, therefore, be a strong incentive to use the agricultural provisions of the Treaty to ensure that this surplus is absorbed within the Six as a whole at the high prices enjoyed by the French producers. This will cause diversion of trade at least partially at the expense of the exports of United Kingdom territories, notably Nigeria and the Gambia. Further, the damage likely to be done to United Kingdom territories under these arrangements will not be confined to the extent to which their exports are directly excluded from the Six. Insofar as groundnuts from whatever source are excluded they will have to be absorbed elsewhere, a factor which will tend to depress the world price of groundnuts from which producers in the Associated Overseas Territories will be insulated by management of the market. Such a decline in price as might be expected to result from the exclusion of outside groundnuts from the markets of the Six is likely to be larger than would at first be thought, due to two factors:

(a) Europe is a very large part of the whole groundnut market; and

(b) that, while on the continent a considerable amount of groundnut oil is used as a table oil in competition with olive oil, a factor which tends to keep up the price of the former, this is not true in the United Kingdom where additional supplies of
groundnut oil could only be absorbed in e.g. the production of margarine and cooking fats at much lower prices. The possibility of substituting groundnuts for other oilseeds may to some extent cushion any fall in the price of groundnuts, but there is nevertheless likely to be a considerable fall in groundnut prices before this takes effect. And the result will only be to transfer part of the adverse movement to other oils such as palm oil and coconut oil which are also of importance to United Kingdom Dependent Territories.

8. In the longer run it is to be expected that the probable existence of a managed market for oilseeds will considerably stimulate the production of groundnuts in the Dependent Overseas Territories of the Six and notably in French West Africa. Nigerian and other experience shows that groundnut production when once established can be expanded much more quickly and easily than that of most other oilseeds. The existence of a guaranteed market at a high price will be a considerable stimulus to increased production. The rapid rise in production in French West Africa in recent years may be expected to continue, Madagascar shows a similar upward trend. This will entail a further displacement of outside groundnuts from the Six which is likely also to be accentuated by an expansion of olive oil production in the metropolitan countries of the Six should a high tariff be established for vegetable oils.

9. As regards groundnut oil the only British Dependent Territory with any interest in the Six's market is Nigeria. However, her exports to Europe have been rising and in 1957 they were near 20,000 tons valued at about £300,000. If the Common Market tariff is fixed at a high level Nigeria will certainly lose most of her markets in the Six for this product, thus suffering directly a major diversion of trade. Moreover, there will be the effect of stimulation of production in the Associated Overseas Territories which will lead to further diversion of trade in time and to a downward influence in world prices.

Copra and Coconut Oil

10. The Six's imports of copra and coconut oil total somewhat more than 350,000 tons (oil equivalent) of which only about 40,000 tons come from their own Dependent Overseas Territories, while just over 100,000 tons are supplied by the Commonwealth and getting on for 220,000 tons by the rest of the world (mainly the Philippines and Indonesia). The Six's Overseas Territories therefore supply only a very small proportion (about one ninth) of their market and this is practically entirely accounted for by exports of the French territories to France. Similarly the United Kingdom takes the greater part of British Colonial production of copra and coconut oil. Assuming that a managed market is established for oilseeds the direct effect of the substitution of Copra from the Associated Overseas Territories for outside copra is therefore likely to be small. This effect, however, will grow as production in the Associated Overseas Territories grows. On the other hand it is possible that
groundnut oil or other vegetable oils which may be in more ample supply within the Common Market countries and their overseas territories might be substituted for coconut oil in some uses and this could have quite a substantial effect on imports into the Six of both copra and coconut oil.

11. More serious, however, would be the effect of a high Common Market tariff on vegetable oils, should it be established, on the Six's imports of coconut oil from outside sources. The greater part of the exports of Commonwealth countries to the Six consists of coconut oil (mainly from Ceylon and Malaya, including Singapore). Any considerable fall in these exports to Europe would be most serious for the crushers in these countries and Singapore would be one of the most heavily hit in this respect. Admittedly any fall in the Six's imports of coconut oil may be partly offset by increased imports of copra but, as explained above, there is a considerable danger of coconut oil being partially displaced by oils (such as groundnuts) which are more readily available from the Six's Overseas Territories. There would in consequence probably be a not inconsiderable decline in the long run in Common Market imports of copra and coconut oil taken together and, as the supplies displaced would have to be sold elsewhere, this would serve to depress the world market price of these products.

Palm Oil

12. Palm oil has to be exported in the form of oil, but palm kernels can be exported either as seed or oil. Imports of palm oil into the Six total about 275,000 tons (oil equivalent) of which around 150,000 tons is supplied by the Six's own Dependent Overseas Territories, 25,000 tons by the United Kingdom's Dependent Overseas Territories (almost all from Nigeria) and 100,000 tons by the rest of the world (mostly Indonesia). Once again the Six take most of the exports of their own overseas territories and the United Kingdom (imports 200,000 tons) and continental Europe together absorb the greater part of Nigeria's exports. The largest producer and exporter of palm oil and palm kernels amongst the Overseas Territories of the Six is the Belgian Congo where exports, in particular, have risen considerably since before the war. Exports of the French territories are lower than before the war, despite the fact that these products also have what amounts to a guaranteed market in France at prices considerably higher than the world price. Nigeria is the largest producer and exporter in the world of both palm oil and palm kernels and her exports have also increased considerably compared with pre-war.

13. The effect of the establishment of the Common Market on the trade in palm oil depends very much (a) on whether it will be subject to a high rate of duty (it is not known whether palm oil will be subject to the same duty as is established for other oils crushed from seeds or whether a lower rate of duty will be established for it) and (b) on the nature of the managed market arrangements that may be established for all vegetable oils, including palm oil. If a high rate of duty is imposed on palm oil Nigerian exports will
be hit severely and there will be a big price incentive for exports from the Belgian Congo and to a lesser extent from the French Overseas Territories. There would also be on the consumption side, a tendency to substitute other oils (including whale oil) for palm oil which would be relatively highly priced. If, on the other hand, palm oil is imported at a lower rate of duty or duty free the effect on Nigerian exports will be less severe. On the other hand in any managed market arrangements which may be established first priority will presumably be given to supplies from the Dependent Territories of the Six and any increased production in the Congo will probably result in a corresponding displacement of supplies from outside sources, including Nigeria. Exports of the French territories are not at present sufficient to meet France's needs and they are relatively highly priced on the French market, but attempts are now being made to increase production of palm oil in French West Africa, partly through the establishment of large plantations. There is likely therefore to be an increase in the export availabilities of French territories during the next few years and the existence of a managed market in Europe would not only ensure the marketing of these supplies but would also provide a stimulus for further rises in production. Once again any displacement from the Common Market of palm oil from Non-Six suppliers, for whatever reason and from whatever source, is likely to lead to a fall in the world price of palm oil as attempts are made to sell the surplus in other markets. This will be only partly cushioned by being spread over other competing oils and will adversely affect Nigeria's export proceeds among those of other suppliers.

Palm Kernels and Oil

14. Imports of these products into the metropolitan countries of the Common Market total about 175,000 tons oil equivalent. Of this, however, around 85,000 tons is supplied by the Six's own Dependent Overseas Territories, 15,000 tons from the rest of the world and as much as 75,000 tons from the British Commonwealth (mainly Nigeria, Sierra Leone and Malaya). Here, while it is once more true that almost all Commonwealth exports go to the United Kingdom (imports 150,000 tons) and to continental Europe, about a third of the production of the Six's Dependent Overseas Territories (mainly accounted for by the Belgian Congo) is marketed outside Europe, a large part going to the United States in the form of oil.

15. It can be seen therefore that, in the case of palm kernels, United Kingdom territories have a much larger interest in the Six's market, both absolutely and relatively, than is the case for palm oil. Their main competitor amongst the Six's Overseas Territories is again the Belgian Congo although once more there is the probability of a considerable expansion of production in the French territories over the next few years. The Congo also exports a large part of its production in the form of oil whereas Nigeria and Sierra Leone exports seeds alone, the small production of oil in Nigeria being used entirely for local consumption. There is also some export of palm kernel oil from the United
Kingdom to the Six using palm kernels imported from the Commonwealth. One effect of a high Common Market tariff on oilseeds, should it be established, would therefore be to reduce considerably or even to eliminate the United Kingdom's exports of palm kernel oil to the Six to the benefit, partly of crushing plants in Europe and partly of the Congo. This would have an indirect effect on British territories' exports of palm kernels to the United Kingdom. (The same effect could also be produced by the establishment of a managed market for oils, should it exclude imports of palm kernel oil from the United Kingdom). On the other hand, should a managed market be established for seeds, its effect on the market in the Six for palm kernels from United Kingdom territories will depend directly on the increase in exports from the Congo and French territories which it induces and indirectly on possible displacement of palm kernels by other oilseeds "surplus" in the Six's own Dependent Overseas Territories (the latter, however, may be less serious as palm kernel oil, being a lauric acid "hard" oil, is in some respects less substitutable for other "soft" oils such as groundnut oil than are the soft oils amongst themselves). As regards the direct effect there is likely to be a price incentive which should encourage exports from the Congo while, as explained above, investment plans in the French territories should begin to bear fruit from now on and might lead to a considerable increase in their output. Again any displacement of foreign kernels is likely to result in a fall in world market prices and this should be relatively more serious for the United Kingdom territories owing to their greater share both in the world export market and in the Six's market.

Other Oilseeds

16. In addition to the products mentioned above there is a fairly considerable, though fluctuating, export of other oilseeds to the Six from United Kingdom Dependent Territories. The main ones are Castor Seed from East Africa (about £750,000 - £1 million over the past few years), Benniseed from Nigeria (£250 - £950,000), Sunflower Seed from East Africa (£300 - £500,000), Soya Beans from Nigeria and East Africa (about £150,000), Sesame seed from East Africa (£50 - £150,000) and Linseed from Uganda and Cyprus (£20 - £25,000). Consideration will also have to be given to the indirect effects on the trade of Cotton Seed and Soya Beans which are important items to other countries. The establishment of a managed market for oilseeds would be likely considerably to reduce these exports as a result both of preference of similar production in the Six's own Overseas Territories and of substitution of other oilseeds such as groundnuts.

Oil Cake

17. Oil cake is a valuable by-product of oil manufacture. It is important to the Nigerian industry which exports £500,000 per annum. The market for this product is already difficult and if it is aggravated by non-tariff preferences to the Associated Overseas Territories production the repercussions on the economy of the whole industry in Nigeria could be very serious.
Conclusions

18. The main danger to the United Kingdom Overseas Territories of the Common Market arrangements for oilseeds and vegetable oils is likely to arise for groundnuts where there is growing surplus production in French West African territories. If this is absorbed in the markets of the Six other than France by means of managed market arrangements it will be at the expense of exports from other areas and almost certainly at higher than world market prices. If a high tariff is established for vegetable oils this is likely also effectively to exclude Nigerian exports of groundnut oil from the Common Market.

19. Apart from groundnuts the other products mainly affected are likely to be palm oil, palm kernels and coconut oil. If a high tariff is placed on palm oil Nigerian exports to the Six will be considerably reduced. In this case part of the difference is likely to be met by supplies from the Belgian Congo and also from the French territories, whose production is expected to expand in the next few years, while the relatively high price for palm oil as a result of the tariff may lead to some substitution for it of other oils. If, on the other hand, palm oil is not subject to a high duty, but is brought within managed market arrangements the loss for British territories is likely to be a direct one resulting from the substitution of oil from the Congo and French West Africa. Any displacement of foreign palm oil from the Six's market is also likely to lead to a fall in world prices.

20. The danger for palm kernels will arise from the possibility of a managed market where the competing sources of supply are again the Congo and the French territories. Once more the displacement of foreign kernels is likely to have some effect on world prices as efforts are made to sell them in other markets, mainly the United Kingdom.

21. A high Common Market tariff on oils is likely also to displace exports of coconut oil to the Six from Commonwealth countries, including Singapore. Although this might increase the demand of the Six for copra, it is possible that a managed market in oilseeds would lead to the replacement of copra to some extent by other oilseeds (e.g. groundnuts) of greater importance to the Overseas Territories of the Six. Any reduction of coconut oil imports by the Common Market would probably also lead to some temporary reduction in its price in relation to copra.

22. If there is a high tariff on vegetable oils, while oilseeds remain duty-free, there will be a strong tendency for the Six to import their requirements in the form of seeds. This will run counter to the general tendency in recent years for producers to convert their seeds into oil (e.g. India prohibits the export of groundnuts). Such conversion is both financially and agriculturally advantageous to producing countries.
23. Finally, there is also a considerable, if fluctuating, export of other oilseeds to the Six from British Overseas Territories, notably East Africa and Nigeria. In a favourable year this might amount to as much as £2 - £2½ million. The establishment of a managed market for oilseeds could considerably reduce this trade, both through the granting of a guaranteed market to similar production from the Six's Overseas Territories and through the substitution of other oilseeds, which might be more readily available, from those territories.