DRAFT

REPORT OF THE
WORKING PARTY ON THE ASSOCIATION OF OVERSEAS TERRITORIES
WITH THE EUROPEAN ECONOMIC COMMUNITY

Commodity Annex No. 1

C O C O A

PART ONE

THE FACTUAL POSITION UNDER THE TREATY

The detailed information furnished by the Six is reproduced in the table appended to this Annex. The following are the salient features as noted by the Working Party, any discussion of these matters being reported in Part Three of this Annex or in the Working Party’s main report.

Present Import Duties of the Six

The legal import tariffs on cocoa for the Benelux, France and Italy were 10 per cent, 25 per cent and 5 per cent respectively. On 1 January 1957, however, these rates had been suspended and imports of cocoa from all sources entered duty-free. In the Federal Republic of Germany the legal rate of 10 per cent was effectively applied.

The Establishment of the Common Tariff

The level of the common external tariff for cocoa has been fixed in List F at 9 per cent. This rate is to become effective in the Federal Republic of Germany at the end of the fourth year, while in Benelux, France and Italy duties of 2.7 per cent will be imposed at the end of the fourth year, 5.4 per cent at the end of the second stage and 9 per cent at the end of the transitional period.

The Working Party noted that the duty for cocoa butter has not yet been determined since this product is included in List G and the duty is therefore subject to negotiation between the Member States.

The Elimination of Duties on Imports from the A.O.T's

In Benelux, France and Italy, imports of cocoa from their overseas territories are admitted duty-free. In the Federal Republic of Germany the duty will be reduced to 7.5 per cent, 5 per cent and zero at the end of the first, second and third stages respectively.
The differences between the duties that will apply to imports from the A.O.T's and those to be levied on imports from third countries, at various stages, are set out in the following table:

<table>
<thead>
<tr>
<th></th>
<th>After first stage</th>
<th>After second stage</th>
<th>Transitional Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benelux</td>
<td>2.7%</td>
<td>5.4%</td>
<td>9%</td>
</tr>
<tr>
<td>France</td>
<td>2.7%</td>
<td>5.4%</td>
<td>9%</td>
</tr>
<tr>
<td>F.R. of Germany</td>
<td>1.5%</td>
<td>4.0%</td>
<td>9%</td>
</tr>
<tr>
<td>Italy</td>
<td>2.7%</td>
<td>5.4%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Fiscal Duties

The Working Party noted that thus far none of the Member States has indicated that it regards its customs duties on cocoa as being of a fiscal nature.

The Possibility of the Application of Quantitative Restrictions

Imports of unroasted cocoa beans have been liberalized by the Federal Republic of Germany and Italy. The Benelux countries apply a liberal import policy. France applies quantitative restrictions on imports not originating in its overseas territories.

The Applicability of the Agricultural Provisions of the Treaty

Cocoa is included in Annex II and is therefore subject to the provisions of Articles 39 to 46 of the Treaty.
PART TWO

BACKGROUND INFORMATION ON TRADE AND TRADE PATTERNS OF COCOA

General

1. Cocoa is of some importance in world trade. The value of world cocoa exports was in 1955 of the order of 500 million dollars, which represented about 9 per cent of the total export trade in the main tropical food products entering international trade.

2. Cocoa is of particular importance in the export trade of several GATT Member countries, as shown in the following table:

<table>
<thead>
<tr>
<th></th>
<th>1955 Value</th>
<th>1955 per cent</th>
<th>1956 Value</th>
<th>1956 per cent</th>
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<tbody>
<tr>
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<tr>
<td>1. Associated Overseas Territories of the Six</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>French Cameroons</td>
<td>46</td>
<td>49</td>
<td>26</td>
<td>35</td>
</tr>
<tr>
<td>French-Togoland</td>
<td>13</td>
<td>57</td>
<td>3</td>
<td>21</td>
</tr>
<tr>
<td>French West Africa</td>
<td>63</td>
<td>21</td>
<td>48</td>
<td>14</td>
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<tr>
<td>2. Other GATT Members</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ghana</td>
<td>183</td>
<td>76</td>
<td>143</td>
<td>65</td>
</tr>
<tr>
<td>Brazil</td>
<td>91</td>
<td>6</td>
<td>67</td>
<td>5</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>24</td>
<td>21</td>
<td>14</td>
<td>11</td>
</tr>
<tr>
<td>United Kingdom Dependencies:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nigeria</td>
<td>73</td>
<td>20</td>
<td>67</td>
<td>18</td>
</tr>
<tr>
<td>Grenada</td>
<td>2.5</td>
<td>48</td>
<td>0.4</td>
<td>13</td>
</tr>
<tr>
<td>New Zealand Dependencies:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Western Samoa</td>
<td>2.5</td>
<td>35</td>
<td>2</td>
<td>37</td>
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<td></td>
<td></td>
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<tr>
<td>3. Other countries</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Ecuador</td>
<td>19</td>
<td>16</td>
<td>17</td>
<td>15</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>6</td>
<td>73</td>
<td>3</td>
<td>43</td>
</tr>
</tbody>
</table>


1 The value of exports of tropical food products is here considered as the combined total export value of the following products: cocoa, coffee, sugar, tobacco, tea, bananas, coconuts and products, and citrus fruits. The estimates are according to International Monetary Fund, International Financial Statistics.
3. It follows that the economic health and hence the political stability of these under-developed countries is particularly dependent upon the maintenance of adequate and stable prices in this commodity. This is especially true of the following countries represented in the GATT: Ghana, Grenada, the Western Region of Nigeria, Western Samoa, Dominican Republic and, amongst the A.O.T's, French Cameroons and French Togoland. Of countries which are not members of GATT, cocoa exports are important to Ecuador, Costa Rica, Venezuela and Spanish Guinea.

4. The Six are important in the world cocoa trade. In 1955 and 1956 they accounted for about 30 and 35 per cent respectively of total world imports as compared with 19½ and 11 per cent for the United Kingdom and 33 and 35 per cent for the United States. Any economic or political change which may affect the pattern of cocoa trade of the Six is therefore bound to be felt by cocoa exporting countries, especially as in many of these cocoa is one of the key economic crops.

5. Moreover, the market of the Six is of special direct importance to certain GATT countries. In 1956 Ghana sent about 47 per cent of its total cocoa bean exports of about 238,000 tons to the countries of the Six, and for a number of other countries the proportion was as follows (total export quantity in brackets): Brazil 26½ per cent (126,000 tons), Nigeria 26 per cent (113,000 tons), Sierra Leone 41 per cent (2,000 tons), Trinidad (in 1955) 23 per cent (7,000 tons), Grenada 19 per cent (500 tons), Indonesia 93 per cent (500 tons), Ceylon 24 per cent (3,000 tons). The Associated Territories of the Six exported in 1956 about 133,000 tons of cocoa beans, of which about 97,000 tons, or 73 per cent, to the countries of the Six. About 2,500 tons went to other Western European countries and over 33,000 tons to other destinations, mainly North America.

6. The general pattern of trade of the Six Member States in 1956 was that of their total imports of cocoa and cocoa products of about 272,000 tons, about 97,000 tons, or 36 per cent, were supplied by the A.O.T's (94,000 tons from French and 3,000 tons from Belgian territories). The other principal suppliers were Ghana with about 72,000 tons (26 per cent), Brazil 35,000 tons (13 per cent), and Nigeria 31,000 tons (11 per cent). The remaining 14 per cent were supplied principally by Portuguese territories, British West Indies, the Dominican Republic and Ceylon. The total value of the imports into the Six was in 1956 about $176 million (c.i.f.).

7. Within this overall picture, France took about 84 per cent of its supplies from the A.O.T's (almost wholly its own), Germany 15 per cent, Benelux 16, Netherlands 35, and Italy 32 per cent.

8. Annex tables I and II show the more detailed pattern of trade in cocoa in 1956. Table I is based on export statistics of the main exporting countries and Table II on import statistics of the Six and certain other large importing countries. Table I shows exports of cocoa beans only, whereas Table II comprises beans as well as products (cocoa powder, butter, paste etc.). Even if both tables related to cocoa beans only there would
be discrepancies between the export and import statistics referring to the same trade flow, due mainly to differences in the system of recording trade (General and Special Trade) but also to a number of other factors.

**Varieties**

9. Cocoa beans are sold in two main grades, Ordinary and Fine, about 90 per cent of the world's output now falling in the former category. There are few possibilities of substitution between the two grades, a small percentage of the fine grades being essential in the production of better quality chocolate.

**Substitutes**

10. No fully adequate substitute for cocoa as a flavouring compound has been discovered. Various partial substitutes for cocoa-butter have been used from time to time when prices have been high, but it is only recently that a really satisfactory substitute has been marketed. It is understood that there are practical limits to any substantial increase in this substitute, but no doubt research will continue and would be stimulated by an era of very high prices. There are indirect substitutes for cocoa of many kinds; even milk powder, nuts and raisins are indirect substitutes in that they can be used partially to replace cocoa and cocoa butter in chocolate. There is also the competition that cocoa and chocolate encounter from other drinks and sweetmeats.

**Semi-manufactured and manufactured products**

11. Cocoa can be readily converted into cocoa paste, cocoa powder, chocolate liqueur, cocoa butter and other semi-manufactured products. An international trade in these items is already highly developed, though so far mainly between manufacturing countries; exports from the Netherlands being especially important. Recently, however, certain cocoa producing countries, notably Brazil, Ghana and French Cameroons, have entered the trade and the interests of producing countries in these products will grow. Furthermore, there is an important international trade in chocolate and other products manufactured from cocoa. Its influence on the trade in raw cocoa is indirect in that an appreciable quantity of cocoa enters the Member States of the Six and other markets in the form of finished products.

**Entrepôt trade**

12. There is an important entrepôt trade in cocoa. The Netherlands in particular re-export substantial quantities of cocoa, either in the form of beans or as products which have been processed from cocoa in bond. This factor has an influence on trade statistics (cf. above, paragraph 8). The import trade statistics of the Member States of the Community do not bring
this out in that any imports from the Netherlands, whether or not bonded products, are shown in the statistics as imports from the Netherlands and not as imports from the country of origin. The export statistics of producing countries, however, give a better but not complete picture of their interests in the cocoa trade of the Six, as they are based on country of destination. This is a well-known feature about trade statistics. It would have been most time-consuming to reconcile the various figures available; the Working Party has therefore merely noted this difficulty. In 1956 the United Kingdom re-exported about \( \frac{\text{tons}}{\text{tons}} \), mainly to \( \frac{\text{tons}}{\text{tons}} \). The Netherlands imported about \( \frac{\text{tons}}{\text{tons}} \) of raw cocoa and re-exported \( \frac{\text{tons}}{\text{tons}} \) tons to other countries in the Common Market.

Prospects of world supply and demand for cocoa

13. Cocoa prices have been extremely sensitive since the war. The New York price moved from 21.6 cents per lb in 1950 to 57.8 cents in 1954, and fell in 1956 to 27.3 cents. These price changes arose from relatively small changes in the supply-demand position, a change of 50,000 tons in this relationship in either direction being responsible for a swing up or down of the price of the order of about 300 dollars per ton.

14. Studies undertaken by the FAO indicate that world consumption might increase at the rate of 2 per cent annual compound interest, on certain assumptions regarding the price level which cocoa producers would generally regard as low. It was further assumed in these studies that new markets would develop in Eastern Europe, USSR, Asian countries and elsewhere.

15. Estimates for the development of world production of cocoa seemed to indicate that under favourable circumstances there might be an increase of about 10 per cent over the next five years, depending, however, also on the development of prices and other relevant market factors. In the more distant future the expansion in production would depend on such factors as new areas being opened up, the use of new high-yielding varieties and the conquest of certain serious cocoa diseases (particularly black pod and swollen shoot). On the other hand, cocoa trees in many producing countries were now reaching the age of declining yields and there was a natural reluctance on the part of producers to forego a present income to replant these trees with new high-yielding varieties.

16. It appeared in these circumstances that for the next five years supply and demand for cocoa would be approximately in balance. As regards the long-term outlook there did not seem to be any factor known at present which would point definitely either to an upward or downward trend in the market. The Working Party took note of the fact that the FAO Cocoa Study Group is at present examining the possibilities for limiting price movements, within agreed upper or lower limits taking into account all relevant economic factors, including the basic causes of price instability.

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1 The prices quoted are monthly averages, New York spot Accra, ex warehouse, which is fixed daily by an official committee. The data are from the FAO Cocoa Statistics, January 1958.
I. The New Tariff Regime

A. Effects within the Community and the A.O.T's

1. The Working Party recognized that the Association of the Overseas Territories to the Common Market would involve an element of discrimination. In the case of cocoa, imports into the Community would be subject to a 0 per cent duty when imported from third countries, but would be admitted duty-free from the Associated Territories.

(i) Effects on price levels in the Community and A.O.T's

2. Representatives of most of the non-Six producers argued that, in accordance with their general views on preferences set out in the General Report (para. since the present production of the A.O.T's was about a half of the actual market requirements of the Six the preference would be fully effective for so long as the total cocoa production of the A.O.T's fell short of the total import requirements of the Six. The A.O.T's would, moreover, generally speaking be able to sell to the Six at a premium of 9 per cent above the world market price. This would mean that the price level for cocoa beans within the Six would be 9 per cent above the level in the rest of the world. These new price levels would be established as soon as the provisions of the Treaty in relation to cocoa had been fully implemented but would commence to take effect within the first part of the transitional period. Even where stabilization schemes existed, over a period and on the average producers should still receive the full benefits of the enhanced prices these products would receive in the markets of the Six.

3. The representatives of the Six could not concur with this view and pointed out that experience in the past had shown that a preferential margin was never fully reflected in the remuneration of the producer. By way of illustration attention was drawn to the fact that preferences for other products had already been in force in France and in other countries, for instance the United Kingdom, and the prices of these products did not reflect a premium equal to the amount of the preference. Furthermore, the tariff provisions of the Treaty of Rome will be put into effect gradually. The production from plantings made in recent years prior to the conclusion of the Treaty is, moreover, far from sufficient to meet the Community's total needs. An additional limiting factor on the prices actually received by the producers lay in the operation of systems for stabilizing prices paid to producers in force in certain important producing territories, for example in the Commonwealth and the French territories. The intent of these schemes was to isolate the price paid to producers from short-term price fluctuations in world markets. In determining the price to be paid to producers due account was taken of preferential margins and world market conditions.
Representatives of most non-Six producers considered that the increase in the price of cocoa within the Community, as a result of the increased tariff level, accentuated by the ad valorem fiscal duties on chocolate and other cocoa products, would reduce the demand for cocoa products within the Community. The increase in the cocoa bean price level of 9 per cent in France, the Benelux and Italy (reflecting the increase from zero to $6 million per annum in net duty collection) would have to be passed on to consumers since it was a permanent increase which (unlike normal market price rises) manufacturers could not expect to recoup in times of lower prices.

Moreover the representatives of most non-Six producers considered that an internal duty might be levied to compensate for loss of fiscal revenue in the Federal Republic of Germany and that in any case the anticipated increase in demand in the Federal Republic of Germany could hardly compensate for the fall in demand elsewhere in the Community. Furthermore, they disagreed with the representatives of the Six that consumption of cocoa products would increase in Italy since they maintained that climatic considerations weighed against an appreciable increase there. They also pointed out that countries like the United Kingdom and the United States with high living standards appeared to have reached saturation point in their per capita consumption of cocoa, that there were similar signs of a limit of consumption being reached in the Netherlands and the Federal Republic of Germany, so that rising living standards in the Community were unlikely to lead to a further increase in consumption in the Community.

The representatives of the Six drew particular attention to a fact which seemed to be deliberately overlooked, but which was obviously of prime importance in any study of the possible effects of the Treaty of Rome on cocoa consumption. The representatives of the Six emphasized that at present the Federal Republic of Germany and France were the two major cocoa consumers in the Community and that the duties in the customs tariffs of those two countries before the entry into force of the Treaty were respectively 10 and 25 per cent. The common tariff duty was 9 per cent, and the new situation resulting from the Treaty at the end of the transitional period would therefore be more favourable than the present situation and would constitute a substantial advantage to consumers, hence, an indirect benefit to the various producers.

The representatives of the Six put forward the view that it would economically not be justified to assume that the tariff of 9 per cent would be fully reflected on the price of the finished product to the consumer and hence lead to a decrease in consumption. On the one hand, as stated above, the tariff was neither automatically nor fully reflected on the price of cocoa and, on the other hand, it had been estimated by the OEEC study on cocoa that the extent to which the cost of cocoa beans entered into the price of the finished product varied between 33 1/3 per cent and 50 per cent. In the Common Market itself the representatives of the Six considered that consumption would increase following an expected rise in the standards of living, apart from an increase in consumption in the Federal Republic of Germany as a result of the reduction of the import duty. In Italy there has been, in recent years, a rapid expansion in the consumption of chocolate products made out of admixtures of cocoa and cocoa substitutes. There was, therefore, room for a considerable improvement in cocoa consumption on this market. It was again recalled that the price of the primary product was an important criterion in the determination of cocoa consumption and it was essential that it be taken into account. It was obvious that beyond a certain level prices acted as a deterrent upon the consumer and a study of the market had shown that there had been very wide fluctuations in cocoa prices in recent years. Therefore, in speaking of market saturation a clear indication should be given as to what price level for the primary product was under reference.
7. The representatives of the Six saw no justification in the assertion that the establishment of a customs duty would necessarily result in a drop in consumption in countries other than the Federal Republic of Germany; it would be incorrect to state that consumption increased inversely to the price of cocoa, which in the first place was only a relatively minor element in the price of chocolate; in fact, the development of consumption was threatened only above a certain price level which was generally considered as being 35 cents per pound o.i.f.; below that level, fluctuations in the price of cocoa had relatively little effect. Moreover, it was not possible to predict the level of the fiscal duty which the Federal Republic of Germany might decide to levy; all that could be said was that it would not affect consumption if it was fixed at a reasonable level.

(iii) **Effects on production in the A.O.T's**

8. Representatives of most non-Six producers held the view that as a result of the new preference the members of the Community would in future tend to turn first to the A.O.T's for their supplies. They noted that production in the A.O.T's had risen by nearly 100 per cent during the past decade and considered that with recent new plantings this strong upward trend would continue (more than counter-balancing any reduction due to ageing). It was inconceivable that such a steady upward trend could cease abruptly. This additional production coming forward in the next few years would accentuate the dislocation of trade arising from the new preference. The new preference arising from the Treaty would operate in favour of this additional production.

9. These members maintained that the premium of 9 per cent above the world price must eventually be largely passed on to producers in the A.O.T's. The prospect of receiving such a price increase and, even more, the assurance of a market in the Six for at least another 100,000 tons of cocoa production would (by themselves, apart from other incentives) have the immediate effect of stimulating substantially, in an artificial way, cocoa production in the A.O.T's of the Six. Attention was drawn to the fact that experience in Africa had amply shown already that under the right conditions, production of cocoa could be very rapidly increased and in the case of Ghana production rose from 6,000 tons to 135,000 tons in fifteen years at a time when technological resources were much less than today. A recent report on the Ghana cocoa industry had shown that there were very substantial reserves of forest lands available for cocoa planting. Cocoa cultivation was being extended on a large scale in areas of Nigeria which had not previously been regarded as suitable for cocoa. In the light of this evidence from neighbouring countries and the rapid recent increases in cocoa production in the A.O.T's, some members of the Working Party considered that new plantings in the A.O.T's would continue for many years on a substantial basis. Moreover, great increases could be achieved from the replanting of old cocoa with new high yielding strains.

10. Representatives of most non-Six producers expressed the view that as the 9 per cent preference in itself would give a substantial return on the capital invested in new cocoa, in addition to profits already being made on cocoa (which were considerable in Africa at present prices) this would act as a strong further attraction for the investment of private capital in cocoa growing in the A.O.T's. They also considered that the $ 500 million Investment Fund would contribute to the construction of the necessary basic services for
opening up new areas within the A.O.T's. It was inevitable, moreover, that agricultural officers and other officials in the A.O.T's would give encouragement to the further development of this financially very attractive crop. Contrary to the opinion of the Six, therefore, the conclusion was inescapable that the 9 per cent preference would greatly stimulate production in the A.O.T's. They considered that at a more conservative estimate this would lead within the next fifteen to twenty years to additional annual exports from the A.O.T's of at least 50,000 tons above what would otherwise have come forward with higher yielding strains and that such an expansion of production would not of itself involve a great increase in acreage above that already cultivated.

11. The representatives of the Six reaffirmed their view that the full effects of the system could not be passed on to the producer. Moreover, it did not necessarily follow that an increased price would induce producers to expand their production. Producers were more concerned with a stabilization of their income rather than any immediate price benefits that may accrue from time to time. Accordingly, it would be in their interests as producers to pursue policies which would have a stabilizing influence on the world market situation for cocoa and not to take any action which would cause a slump in prices.

12. The representatives of the Six pointed out that additional production resulting from plantings made before the Treaty was drawn up could not be considered as being in response to the provisions of the Treaty itself, and were therefore irrelevant for the purpose of assessing the effects of the Treaty on future production. Furthermore, there were no grounds for the assertion that as a result of the 9 per cent duty the Member States would in future tend to turn to the A.O.T's for their supplies; in any case such an assertion ignored the fact that the dollar area was a very attractive market offering advantages which could not be underestimated.

13. While the representatives of the Six acknowledged that production in the overseas territories would increase in the future, they stressed that due to obvious physical economic and financial limitations the rate of increase could not possibly equal that attained in the past, nor could it be by far of the magnitude envisaged by some members or be sufficient to meet the total requirements of the Six. The most optimistic forecasts for the next five years allowed for an increase in production of 30,000 tons in the French dependent overseas territories, taking into account the efforts made before the Treaty was drawn up. In this connexion they referred to the opinion of the FAO experts and publications, and to the OEEC study on cocoa. The acreage of land suitable for the cultivation of cocoa was in fact restricted and the opening up of new outlying areas involved considerable capital outlay. A large proportion of the trees were aged and low-yielding. There was some producer resistance to the felling and replanting of old trees since it took a period of five to seven years for the trees to mature and become a paying proposition. These factors, therefore, together with plant diseases and climatic conditions, militated against any expectancy that production in the overseas territories could increase to any considerable extent in the foreseeable future. They could not accept the example cited of the rapid increase of production in Ghana as being altogether valid since in this instance it referred to the years 1905-1920 when production started from almost zero and by definition the rate of increase would be rapid. The A.O.T's however, have been important producers of cocoa for a considerable period of time.
14. The representatives of the Six could see no justification in the apprehensions concerning the operation of the Investment Fund with respect to the expansion of cocoa production because of the fact that it was as yet too early to say what the activities of the Investment Fund would be, but that in any case the overseas territories were aware of the dangers of one-crop production and the vulnerability of under-developed economies which were largely dependent on one staple export product, and therefore of the necessity to undertake investment projects which would result in some diversification of production. With regard to private capital investment it must be borne in mind that plantations in the A.O.T's were at present entirely in the hands of African producers who were attached to their land to such an extent that, apart from other factors, it was impossible to consider investing private European capital in this sector. Moreover, as had already been pointed out, the 9 per cent duty would normally affect the producer in exceptional circumstances only. In normal circumstances, this preference should only have an insignificant effect on prices.
B. Effects on Trade of Third Countries

(1) Effects of new tariff regime on trade patterns over short and long-term

15. The representatives of most non-Six producers, since they held that the new tariff preference would make A.O.T. supplies attractive to importers of the Community, considered that there would be a dislocation of traditional patterns of trade (setting on one side the effect of the stimulus to production). This would have serious financial consequences for these countries in that existing trade connections would be broken, and outside producers would not be able to market their products in the markets which had been accustomed to use them. Such a dislocation in existing trade patterns was in itself a legitimate cause for complaint under the GATT and the offsetting effect of such increased opportunities for selling in third markets as may arise from the withdrawal of A.O.T's cocoa from these markets did not in itself adequately protect the interests of other producers. Producers not enjoying any preferential market, such as producers in Latin America, would suffer especially from this creation of a further preferential market. This dislocation to existing trade patterns would be markedly accentuated in the immediate future by the additional supplies of cocoa coming forward from the recent new plantings in the A.O.T's.

16. Even more important than this, however, was that the artificially stimulated production in the Six's Overseas Territories threatened other producers with the loss of a large part, and probably eventually the whole, of their existing market in the Six. This market consisted at present of some 140,000 tons worth - about $150 million per annum at current c.i.f. prices. The importance of the cocoa market of the Six to most cocoa exporting countries has already been noted (Section II). In most cases it is at least 20 per cent and in some cases as high as 40 per cent of total cocoa exports. Outside producers had no longer, moreover, any assurance of participating in any increase which may occur in the market for cocoa within the Six and those producers which had held a pre-war market in the Six would be precluded from regaining any part of that market.

17. Representatives of most non-Six producers noted that a further effect of the new preference would be that outside producers would be reduced to the status of the residual suppliers of cocoa to the Six. The Treaty of Rome itself makes clear that one of its objectives is to lessen dependence of the Community on outside supplies. This would mean that should there be at any time a falling demand for cocoa by the Six the reduction would first fall on outside producers, the Six continuing to provide a full market for whatever cocoa the A.O.T's produced.

18. The representatives of the Six could not accept such views. The Preamble and Articles 18, 29(a), 110 and 234 of the Treaty took fully into account trade relations with third countries. They saw no reason to expect that there would be a dislocation of present trade relationships. In the first place production in the A.O.T's was not sufficient to supply the expanding European market and replace imports from third countries; indeed it was technically impossible for A.O.T. production to develop sufficiently in both quantitative and qualitative terms to meet the present total requirements of the metropolitan territories of the Six, let alone the future requirements. Furthermore, the A.O.T's would wish to retain their present foreign markets, particularly those in the dollar area. Any shift in cocoa exports from the present markets of
the overseas territories to those of the Six that did in fact take place would in any case create additional outlets for other producers in these markets. In addition, attention was drawn to the fact that for the production of chocolate, chocolate paste and cocoa butter intended for export to third countries, producers in the Common Market would be able to obtain their supplies on the world market if they so wished. Moreover, it was by no means established that the customs duty would result in a price advantage sufficient to encourage increased production; in fact, it was to be expected that the duty would not have any effect comparable with the effect on prices of the wide fluctuations which usually occurred on the world market.

(ii) Effects on world markets, taking due account of world supply and demand changes

19. Most serious of all, however, were the adverse effects on world cocoa prices which they foresaw as noted in Part Two. It was in the view of most non-Six producers generally agreed that the cocoa market is a highly sensitive one and that experience since the war had shown that an imbalance between supply and demand of the order of 50,000 tons had changed price levels by as much as £100 per ton of cocoa. The representatives of most non-Six producers considered, therefore, that since the preferences referred to above would cause in the long-term an imbalance between supply and demand of at least the same tonnage (on very conservative estimates) world price levels would be reduced by at least the same figure. This would cause a loss to non-Six producers of cocoa of over £60 million per annum. The importance of cocoa to the economy of a number of under-developed countries including Ghana, Brazil, Nigeria, Grenada, Western Samoa and the Dominican Republic had already been noted (Section II) and a fall of cocoa prices of this magnitude could have the most serious repercussions, not only on the livelihood of cocoa farmers in these territories, but the whole economic life of the territories themselves with far-reaching social and political consequences.

20. Representatives of most non-Six producers further pointed out that saturation point had already been reached in the important cocoa markets of the United Kingdom and the United States and that the expected 2 per cent increase in annual consumption calculated by the FAO was based on a price which producing countries generally regarded as low and it assumed substantial increases in consumption in the USSR, China and other as yet small markets. Even so, additional production likely to come forward from other sources, e.g. Latin America, was likely to correspond to this increase in consumption. These members concluded, therefore, that in this evenly balanced situation further additional production in the A.O.T's, stimulated by the Treaty of Rome, would have a major depressing effect.

21. The representatives of the Six pointed out that:

(a) The provisions of the Rome Treaty would be introduced progressively, and the short-term effects would be non-existent or very moderate.

(b) The Six had already indicated that for the present exercise plantings made in the last few years preceding the signature of the Rome Treaty were not to be taken into account.
(c) For the reasons already stated, the long-term prospects for expanded production in the associated territories fell far short of the Community's requirements, which in any case would increase as a result of the implementation of the Treaty provisions.

(d) Any decline in world prices would affect producers not only in third countries but also in the associated territories. As had been pointed out by the representatives of countries which were not members of the European Economic Community, it was therefore in the interest of the producers in the associated territories to avoid any action which might cause a slump on the world market.

22. The representatives of the Six considered, furthermore, that in accordance with the Working Party's terms of reference, any estimates on future patterns of trade should not be confined to the markets of the Six but should rather be made against the background of the future outlook on the world market. Demand for cocoa had a dynamic character since it was determined by such factors as population increase, levels of income and the price of the product itself. There was no evidence that world consumption would stagnate; indeed consumption studies by the FAO indicated that a 2 per cent per annum compound rate of increase in world consumption could be expected in future years. The fact that future prospects for cocoa were encouraging was further borne out by the intensive experimentation of cocoa substitutes at present being vigorously pursued. The view was held, therefore, that a point of saturation in consumption had certainly not been reached in all markets, if any, and that population growth, rising living standards and the recent entry of new buyers such as Eastern Europe in the market, would all militate towards continuous upward trends in consumption. Moreover, since the war the extreme sensitivity and speculative character evidenced on the world cocoa market has had far greater limiting effects on the expansion of world consumption than any repercussions that could occur from a tariff incidence of 9 per cent.

(iii) Cocoa Butter, Cocoa Paste, etc.

23. Representatives of most non-Six producers drew attention to the fact that the duty on cocoa paste, cocoa butter, chocolate liqueur and other cocoa products (EN. 18.03, .04, .05 and .06) remained to be fixed under the Treaty of Rome since they occurred in List G. They considered that if an appreciable high Common Market tariff were to be introduced for any of these items it would constitute a preference in them on behalf of the A.O.T's in precisely the same way as for cocoa beans. They also drew attention to the fact that, if the duty was placed at a higher level than that corresponding to the duty on cocoa beans itself, this would stimulate the manufacture of these products in the A.O.T's themselves, leading to basic structural changes in the world trade in cocoa beans and the semi-manufactured products thereof. There were no technical difficulties on climatic or other grounds to prevent such a development, and indeed it had already started in the A.O.T's and other tropical countries. This would have an even more serious effect on the sales of cocoa and cocoa products to the Six than the 9 per cent preference on cocoa beans itself. Although the present production of cocoa butter and other products within the A.O.T's was small, it was growing and there was no reason why, under a substantial preference, it could not grow very rapidly.
The representatives of the Six considered that the apprehensions expressed concerning trade in cocoa butter appeared to be out of proportion to its relative unimportance in world cocoa trade. In 1956 world imports of cocoa butter stood at 46,000 tons as compared with 750,000 tons of cocoa beans. It was pointed out that compared with world production, African countries produced 60 per cent of cocoa beans and 11 per cent of cocoa butter. On the other hand, technical and economic conditions do not warrant a substantial increase in the production of cocoa products in Africa. Moreover, the Six were net exporters of this product.
II. Non-Tariff Questions

(i) Quantitative Restrictions

25. The representatives of most non-Six producers considered in accordance with the arguments set forth in the General Report (para. ) that if the Six exercised the rights they had claimed in the discussions on quantitative restrictions in Sub-Group B at the Twelfth Session they could substantially increase the margin of preference over and above the 9 per cent tariff on cocoa in the following ways:

(a) Benelux, Germany and Italy would apply substantially the same quotas that France is applying; and,

(b) France would remove its quotas from cocoa beans produced in the overseas territories of other members of the Six while continuing to apply them to imports from third countries.

If the Six took such action it would constitute a formidable additional preference over and above the common tariff and indeed could become an absolute bar to the cocoa of outside producers.

26. The representatives of the Six pointed out that France had only recently placed cocoa under quota, and that action had only been taken as part of a general withdrawal of trade liberalization measures which had been caused by the special situation of France's external trade balance; prior to that action, imports of cocoa had been unrestricted, and traditionally there were no quantitative import restrictions on that product in the franc area. A situation as outlined above by some members was a hypothetical one and that it was to the institutions of the Community to pursue an economic policy. They referred to their argumentation as set forth in para. of the General Report and stressed the fact that the institutions are obliged by Article 234 of the Rome Treaty to respect international obligations which clearly includes the rules of the General Agreement.

(ii) Agricultural Provisions

27. For the reasons set out in the General Report the representatives of most non-Six producers also argued that the application of the agricultural provisions of the Treaty to cocoa production in the overseas territories would probably lead to a marked increase in the margins of preference provided by the tariff. These members considered the statement by a representative of the Six to the effect that they should not take account of the agricultural provisions because the institutions of the Community have not decided whether or how they will be applied to cocoa. However, these members decided that unless the Six assured the Working Party that the agricultural provisions would not be applied to cocoa the only realistic course was to consider their probable effects on the interest of third countries.
28. Representatives of most non-Six producers argued furthermore that any serious fall in world cocoa prices, whether arising from this or other causes, would lead to strong pressure on the institutions of the Community to make use of the powers given them by the Treaty to institute quantitative restrictions or "managed market" provisions to protect the returns received by cocoa producers within the A.O.T's. This would mean that production would be kept up in the A.O.T's and the full brunt of the recession and any cutting back of production would fall wholly on cocoa producers of third countries.

29. The representatives of the Six stated that in accordance with their argumentation in the General Report they considered that this viewpoint was a pessimistic and purely hypothetical one and again drew attention to the provisions of the Treaty that the Community, in shaping its commercial policy, was bound to take into account the international commitments of the Member States. They added that while they could not foresee what decisions would be taken by the institutions of the Community, it was very unlikely that a managed market would apply to cocoa, and that as far as they knew, none of the Member States would favour such an arrangement.

III. Summary of Views

30. [Views of the representatives of most of the non-Six producers]

31. [Views of the representatives of the Six]

PART FOUR

CONCLUSIONS

[Draft to be submitted]