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

With the exception of France all the Member States have specific duties on raw coffee. These legal duties are fully suspended in Benelux and partly in Italy. The representatives of the Six informed the Working Party that the ad valorem incidences of these duties, which are listed in column 2 of the table, had been calculated on the basis of imports of all varieties of coffee and the corresponding specific duties. Different results would have been obtained if separate calculations had been made for the cheaper and the more expensive types of coffee.

In this connexion, the OEEC observer informed the meeting that such detailed calculations had been made for the duties applied by the Federal Republic of Germany and Italy on the basis of prices quoted on the New York market:

<table>
<thead>
<tr>
<th>Duty</th>
<th>Year</th>
<th>Santos No. 4</th>
<th>Ambriz No. 1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(Arabica)</td>
<td>(Best Robusta Quality)</td>
</tr>
<tr>
<td>F.R. of Germany</td>
<td>1954</td>
<td>22%</td>
<td>28%</td>
</tr>
<tr>
<td>1.6 DM per kg. net</td>
<td>1955</td>
<td>30%</td>
<td>38%</td>
</tr>
<tr>
<td></td>
<td>1956</td>
<td>30%</td>
<td>45%</td>
</tr>
<tr>
<td>Italy</td>
<td>1954</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>65 lire per kg. net</td>
<td>1955</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>1956</td>
<td>8%</td>
<td>12%</td>
</tr>
</tbody>
</table>
The Establishment of the Common Tariff

Raw coffee appears in List F and the rate of the common external tariff of the Community has been fixed at 16 per cent. This rate is lower than the arithmetical average of the existing legal rates (26 per cent), but higher than the arithmetical average of the administrative rates actually applied (14 per cent) on 1 January 1957. There are provisions in a special Protocol under which the Benelux countries and Italy will introduce special duty-free quotas.

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

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 the various stages, are set out in the following table. (Except for France, the figures in the first and second columns are only approximations as they are based on average incidences of specific duties.)

<table>
<thead>
<tr>
<th></th>
<th>After</th>
<th>After</th>
<th>At the end of the</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>first stage</td>
<td>second stage</td>
<td>Transitional Period</td>
</tr>
<tr>
<td>Benelux</td>
<td>4.8%</td>
<td>9.6%</td>
<td>16%</td>
</tr>
<tr>
<td>France</td>
<td>3.8%</td>
<td>7.6%</td>
<td>16%</td>
</tr>
<tr>
<td>F.R. of Germany</td>
<td>3.5%</td>
<td>7.0%</td>
<td>16%</td>
</tr>
<tr>
<td>Italy</td>
<td>5.0%</td>
<td>8.55%</td>
<td>16%</td>
</tr>
</tbody>
</table>

The representatives of the Six drew attention to the fact that these differences in duties would be reduced by the establishment of the duty-free quotas mentioned above.

Fiscal duties

It is indicated in the attached table that the Federal Republic of Germany may avail itself of the provisions of Article 17, paragraph 3, which permit a Member State to substitute an internal tax for a customs duty of a fiscal nature.

The Possibility of the Application of Quantitative Restrictions

Imports of raw coffee 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

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

PART TWO

(The draft of Part Two will be distributed as an Addendum)
PART THREE

THE SHORT AND LONG-TERM PROBLEMS WHICH THE ASSOCIATION OF THE
A.O.T's RAISED FOR THE TRADE OF OTHER CONTRACTING PARTIES TO THE
GENERAL AGREEMENT

I. The New Tariff Régime

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

1. Representatives of most of the non-Six producers of coffee considered that
the common tariff of 16 per cent and the duty-free entry of coffee from the
A.O.T's of the Community into the whole market of the Six under Article 133(1)
of the Treaty would constitute a discriminatory tariff in favour of the O.T's.
This compared with the previous position in 1957 of a preference of 20 per cent
in France for O.T's and no preference in any other market for any other of
the Six's A.O.T's.

2. The representative of the Six were of the opinion that the abolition of
tariffs on trade inside a free trade area could not be considered as constituting
a discriminatory measure.

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

3. Representatives of most of the non-Six producers expressed the view that,
since the present production of the A.O.T's was only about one-half of the
market requirements of the Six (270,000 tons against 520,000 tons) the dis­
criminatory element in the tariff would be reflected by the end of the first
stage of the transition period in a corresponding difference between the price
offered by importers in the Community to exporters in the A.O.T's and exporters
in third countries. This would be between 4 per cent and 5 per cent in terms
of average prices, but so long as the German and Italian duties were kept on
a specific duty basis during the transition period, the incidence of the
discriminatory element in respect of low priced robusta coffee would be
substantially higher.

4. These representatives considered, in accordance with the general view
set out in paragraph of the main Report that in the absence of detailed
information on the administration of the tariff quotas for Italy and the
Benelux countries during the transition period, there was no evidence that
these quotas would appreciably reduce the discriminatory incidence of the
tariff during the transition period.

5. At the end of the second stage the discrimination would increase and
furthermore apply to substantially greater quantities of coffee as production
rose in the O.T's. By the end of the transition period the tariff would,
generally speaking, have the effect of raising the price level in the Six to
16 per cent above prices on world markets and corresponding exporters in the O.T's would then receive a premium of 16 per cent above the prices received by other exporters for comparable grades and qualities. Exporters in the A.O.T's would naturally sell wholly to the markets of the Community since only in these markets could they obtain a premium above world prices.

6. The representatives of the Six could not accept the view that coffee producers in the A.O.T's would at every stage of implementation of the Treaty obtain for their exports to the Community a premium amounting to the difference between duties charged on coffee imports from third countries and those from the A.O.T's; nor could they share the belief that the price level in the Six would, after the end of the transition period, be 16 per cent above prices on world markets. Experience in various countries and with various commodities had shown that the effects of different rates of duty were never automatically nor fully reflected in the remuneration to the producers. The repercussions of differential duties depended inter alia on the statistical position of the commodity concerned, the nature of established commercial ties between producing and consuming countries, the competitiveness of markets and on transportation conditions. If, as had been indicated by some members of the Working Party, A.O.T's producers were to receive a premium of 16 per cent on coffee, the Treaty would cause no modification in the pattern of trade because importers in the Community would find no advantage in purchasing preferably from producers within the free trade area.

7. The establishment of duty-free quotas, provided for in the Treaty at the request of the Benelux countries and Italy, would to a large extent reduce the advantages offered to coffee production in the A.O.T's. These quotas would be applied in conformity with Article XIII:5 of the General Agreement, and the absence of detailed information on the administration of these quotas therefore did not prevent contracting parties from assessing their effects.

(ii) Effects on Consumption in the Community

8. Representatives of most of the non-Six producers drew attention to the fact that the discriminatory prices offered in their favour in the market of the Six would enable exporters of the A.O.T's to obtain as much of that market as they desired for the types and qualities of coffee they had to offer. A switch in demand would, therefore, become noticeable by the end of the first stage of the transition period in the Six from coffees sold by third countries to similar coffees exported by the A.O.T's. This switch would steadily become more pronounced as the incidence of the discriminatory element in the tariff increased to its final figure of 16 per cent and as production in the A.O.T's increased.

9. These representatives noted that in view of the terms of Article 17(3) of the Treaty of Rome there was an inherent presumption that internal taxes would be imposed in F.R. of Germany and France to compensate for any loss of revenue from the reduction in the coffee duties in those territories and from the duty-free entry of coffee from the A.O.T's production. The ultimate price level in these countries would, therefore, be even higher than it was today. There was also an increase from zero to 16 per cent in the duty in the Benelux and an increase in Italy from 10.4 per cent to 16 per cent and the effect of
these tariff changes increasing the internal price level would be accentuated by ad valorem internal taxes on coffee in these countries. There would, therefore, be a marked increase in coffee price levels in the Community above the levels which would otherwise have subsisted with a consequential discouragement to consumption. The duty-free quotas already fixed for coffee might help to keep internal prices down temporarily (although the evidence on that was not clear), but there was no guarantee that these would continue after the transition period so that at that time the full effect of the new duties would be felt.

10. These representatives further argued that it was by no means certain that increases in wealth in the Community would be substantially directed towards increased coffee consumption. There was no evidence that consumption of coffee in the Community could increase towards the United States level since there were heavy fiscal taxes on coffee in the Community (against no taxes in the United States) and there were very different social habits (e.g. the heavy wine consumption of France and Italy). Such increases in consumption of coffee as did occur would in any case be taken up first on a preferential basis by producers of the A.O.T's. In accordance with the arguments set out in the main report (para ) they did not consider, in any case, that such increases in consumption could be regarded as offsetting in any way the adverse effects on their trade arising from the association of the A.O.T's with the Community.

11. Moreover, considering that the production of the A.O.T's consisted largely of robusta coffee these representatives stressed that it was possible to increase the percentage demand for that type of coffee considerably to the detriment of consumption of arabica coffee which was produced mainly in Latin America and to a certain extent in British East Africa and Asia. Consumption of arabica coffee in France before the war was 81 per cent of the total, but by 1956 it had fallen to 29 per cent. The causes of this change in the pattern of consumption had been described as follows by an expert: "This change is a consequence of the considerable development of the African Colonial production which in the main is of the robusta type and that phenomenon has been accentuated by the general impoverishment provoked by the Second World War..." and it should be added by the imposition of quantitative import restrictions. In this context, attention was drawn to the fact that before the war the Dominican Republic exported about 50 per cent of its total production of arabica coffee to France, but none in 1956. Consumption in FRG of Germany was 98.3 per cent arabica; not only because of taste, but because the heavy specific import duties and internal taxes had reduced the difference in price to the consumer of arabica and robusta coffee to a negligible proportion. For similar reasons Italian consumption of arabica had been kept at 60 per cent of the total. With the introduction of an ad valorem import duty the great difference in world market price between the two coffees would be largely passed on to the consumer and a preference for robusta coffee thus encouraged. Moreover, the better varieties of robusta coffee were being increasingly used

in blends with arabica coffee and there was the probability that consumption of soluble coffees (which largely used robusta coffee) would increase substantially in the Community (if it rose to the present percentage level of the United States - 20 per cent - this alone would result in an increased consumption of robusta in the Six of about 75,000 tons at the expense of arabica coffee). There was also the possibility of official steps to stimulate consumption of robusta coffee in the interests of the A.O.T's. If the percentage consumption of robusta in France were to become general throughout the Community total consumption there would be approximately 390,000 tons robusta and 130,000 tons arabica as compared with 230,000 tons robusta and 290,000 tons arabica today.

12. The representatives of the Six, on the other hand, could see no justification in these apprehensions concerning future consumption in the Community. In their opinion the diversion of demand away from coffees produced in third countries to similar coffees exported by the A.O.T's could, if it occurred, only have beneficial effects on consumption in the Community since such a switch could be motivated by nothing except more advantageous prices. The uniform tariff of 16 per cent together with the duty-free quota arrangements and duty-free entry of coffee from the A.O.T's would have the effect of reducing coffee prices in the market of the Community and hence lead to increased consumption. When compared with the 1957 legal tariffs the common tariff of 16 per cent represented a reduction of the customs duties previously in force in Member States which together accounted for 73 per cent of imports of coffee in the Community; when considering the duties effectively levied the corresponding figure was 63 per cent.

13. These representatives further indicated that the fiscal bearing of a duty of 26 per cent - the average of the legal tariffs in force on 1 January 1957 - would be heavier than that which would result from a uniform tariff of 16 per cent even if some Member States decided to raise internal taxes. As long as overall fiscal receipts, from both customs duties and taxes, remained lower than before the institution of the Customs Union consumer prices would be favourably affected. The fact that the Treaty permitted the Six to substitute internal taxes for duties should not be construed as meaning that they would systematically avail themselves of these provisions. That the preservation of fiscal revenues from customs duties was not of cardinal importance to the Six could be seen in the fact that their legal duties were in numerous cases not actually applied. The Governments of the F.R. of Germany and of Italy might, on the contrary, be led to lower their customs duties of a fiscal nature in accordance with Article 17 of the Treaty of Rome, in order to reduce the present disparity between consumer prices in the various countries of the Community. It seemed paradoxical, in any case, to claim that the reduction of customs duties in the F.R. of Germany and France would in the end result in an increase in the price of coffee. Furthermore, the replacement in France, the F.R. of Germany and Italy of specific duties by a uniform ad valorem duty would have a beneficial influence on coffee markets by stabilizing a part of the fiscal element in the price to the consumer. Indeed after the introduction of ad valorem duties a decline in the price of coffee would no longer be accompanied by a relative increase of the incidence of the duty.
14. The reduction in prices in some of the markets of the Community would bring coffee within the reach of new classes of consumers which did not at present enjoy sufficiently high incomes to consume coffee in appreciable quantities. Consumption of robusta would admittedly be stimulated more than that of arabica, but it had to be borne in mind that arabica was consumed by the higher income classes of consumers for which it represented a luxury product, not very sensitive to price changes. A confirmation of this could be seen in the fact that in 1954, when very high prices had led to an appreciable reduction of coffee consumption throughout the world (from 2 million tons to approximately 1.8 million tons), imports in the F.R. of Germany, which consumed practically only arabica, had continued to expand, passing from 75,000 tons to over 100,000 tons. For certain classes of consumers of arabica coffees, therefore, prices did not always constitute a determining factor. In addition, a larger demand for robusta would be accompanied by an increase in the demand for arabica, for the former variety could only be consumed when blended with the latter.

15. Apart from the incentive of a lowering of the price of coffee in the Community, consumption would likewise be stimulated by the increase of effective demand, resulting from economic integration of the economies of the Six which would gradually take place, already during the transition period. The growth in population and rising incomes had since the war rapidly stimulated coffee consumption in the Six and would no doubt continue to do so. Per capita consumption in the Community was far from saturation point and on the average still much lower than in the United States. This helped to explain why the income elasticity of demand for coffee was particularly high in the Six.

16. The representatives of the Six also pointed out that the change in the pattern of consumption of coffee in France, was principally due to the quantitative restrictions maintained for balance-of-payments reasons and not to price factors. It was these restrictive measures which had, to a large extent, prevented consumers to exercise a choice between various types of coffee. The adverse repercussions which the application of such quantitative restrictions might in the future have on the trade of other countries should not be attributed to the operation of the Treaty. Finally, owing to the high incidence of the internal taxes on prices of coffee in the F.R. of Germany and Italy the conversion of specific duties into ad valorem duties in these two countries would not significantly increase the difference between prices to the consumer of arabica and robusta varieties.

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

17. Attention was drawn to the fact that coffee exports in French West Africa had risen from 8,000 tons, average 1934/38 to 131,000 tons in 1956 - a fifteen times increase in twenty years. Similarly, exports in the other French territories had grown from 35,000 tons to 80,000 tons. The French authorities had estimated that total production of their A.O.T's would rise to 260,000 tons in 1960 representing a 25 per cent increase in four years. Exports from the Belgian Congo had risen from 17,000 tons pre-war to 51,000 tons in 1956 and the Belgian authorities expected a further rise to 100,000 tons in 1961 (of which 40,000 tons would be arabica coffee). From this very high rate of increase
and the evidence of substantial new planting in recent years not yet in full bearing representatives of most of the non-Six producers concluded that production from existing plantings would eventually expand well beyond 1961 figures, which in themselves included substantial additional supplies.

18. These representatives pointed out that output would, by 1961, have been sufficient to supply more than the whole of the markets of the respective metropolitan territories for coffee (i.e. 180,000 tons in France and 100,000 tons in Benelux) and it might be expected that fears of falling prices would have discouraged further expansion of production in these overseas territories if it had not been for the Treaty of Rome. The Treaty, however, now guaranteed to producers in these A.O.T's a substantially increased protected market (520,000 tons as against 280,000 tons, on present figures). There would, moreover, be a substantial increase in the prices received by Belgian O.T's producers above the prices which they would have received even under the 8 per cent legal preferential tariff of Benelux (which in any case had not been applied during the post-war period).

19. Representatives of most of the non-Six producers therefore felt that the combined stimulus of a large guaranteed market and higher prices must encourage substantial further increases in production in the A.O.T's. The very rapid rise which had occurred in the past twenty years and the further rises anticipated in the next few years indicated the possibilities. In large parts of Africa soil and climate were well suited to coffee which was a popular crop with African peasant farmers. This was especially true of robusta coffee, but also of arabica, although that needed land at higher altitudes and great care under African conditions. The anticipated rise in production of arabica coffee in the Belgian territories from 18,000 tons in 1954 to 35,000 tons in 1959 (i.e. almost double in five years) showed the potentialities for arabica coffee in those territories. Costs of production were known to be low in Africa. Evidence on British East Africa gave costs of production of robusta at about £ 50 per ton and arabica as £ 150 per ton (in the new high yielding areas). Costs of production in French territory were at present perhaps higher, but they should come down when cheaper goods become available from other Member States of the Community. Costs should not be higher in the Belgian than the British territories which were contiguous. The steady decline in the duty-free quotas fixed for Italy and the Benelux indicated in themselves a presumption in the minds of the drafters of the Treaty that A.O.T. production was going to increase substantially. The prospects should prove very attractive to new private capital, including German capital which would henceforth have full rights of establishment in the French and Belgian territories.

20. Considering that production had risen fifteen times in French West Africa in the past twenty years these representatives believed that it would therefore be a conservative estimate to assume that with the stimuli indicated output would increase three or four times during the next fifteen to twenty years provided a market could be found for such a large production. It was, however, sufficient for the purposes of the argument to assume that production of robusta coffee would only double in the next twenty years. Somewhat greater increases in arabica coffee were assumed since the quantities were smaller
and there was no possible marketing problem. In sum this would give an annual production of at least an additional 150,000 - 250,000 tons of robusta coffee and 40,000 - 80,000 tons of arabica during that period, over and above what would have been produced in these territories if it had not been for the Treaty of Rome, making a total production by that time of at least 450,000 - 550,000 tons of robusta coffee and 80,000 - 120,000 tons of arabica coffee per annum in the A.O.T's

21. The representatives of the Six could not concur with these views. While production in the O.T's would expand in the near future - as indeed it would in most countries growing coffee - owing to physical and financial limitations the rate of increase could not possibly be of the magnitude envisaged by some members of the Working Party. The cultivation of coffee, particularly of arabica, was possible in Africa only under certain climatic and geographical conditions, and the creation of new plantations involved heavy outlay in terms of finance and manpower. These difficulties could be illustrated by the trends of production of arabica in the French O.T's which had been stagnating for a number of years. This situation was evidently due to natural factors of a permanent nature for arabica had enjoyed the same advantages in the metropolitan market as robusta coffee. Production in the A.O.T's was hampered by the limited yields which remained low both because of the mediocre quality of certain lands and the insufficient care given to plantations. In the French O.T's yields did not exceed 250 kg. per hectare on the average. Any decline in coffee prices might therefore lead producers to neglect their harvests and even to abandon a part of their plantations. The equipment of indigenous family enterprises was as a rule very limited and insufficient to tend the plantations properly. It seemed doubtful therefore that the prospects for the production of coffee in the A.O.T's might constitute a great attraction for private capital in the Community. In addition, output in the A.O.T's had been considerably stimulated by the high prices for coffee which obtained during most of the postwar period, particularly in 1953-54. Since 1955, however, prices had become much less favourable and, as a consequence, production no longer benefited from this very strong incentive. These various factors and the fact that in several of these territories production had started from very low levels therefore made it clear that the extrapolation of statistics of output was not necessarily indicative of future trends and possibilities of production. The figures of future production advanced by certain members of the Working Party could not be attained, except if prices of coffee during the next fifteen or twenty years remained at exceptionally high levels.

22. Referring to the effects which the Treaty might have on production the representatives of the Six observed that the additional production which was expected to be forthcoming in 1961 would come from plantings made before the Treaty had been signed for it took coffee trees four to six years to come into full bearing. Consequently such additional supplies could not be considered as being in response to the provisions of the Treaty. Production of robusta in the French O.T's had continued to expand recently and plans for a further extension of plantings had been implemented notwithstanding the fact that coffee output already exceeded import requirements in the metropolitan country. There would accordingly, be no justification to attribute all future increases in production to the formation of the free-trade area. As regards the reason for the steady decline in the duty-free quotas fixed for the Benelux countries and Italy these quotas were part of the transitional arrangements towards the institution of a real and complete customs union; once the Common Market was fully established tariff quotas would, as it is normal in a customs union, require the approval of the authorities of the Community.
B. Effects on Trade of Third Countries

(1) Effects on Patterns of Trade

23. The representatives of most of the non-Six producers said that in accordance with their views that the preferential tariff would make A.O.T. production of coffee substantially more attractive to the importers of the Community, there would be a diversion of trade within the Six from third country suppliers to the coffee of A.O.T's by the end of the first period of transition. This diversion of trade would increase rapidly during the transition period as the discriminatory element in the tariff increased and production in the A.O.T's expanded. The effect would be most immediate on the robusta coffee market of third countries in the Six (at present some 40 - 50,000 tons valued at £ 10 million) which would disappear completely within the next few years. The present arabica market of third countries (some 250,000 tons per annum valued at about £ 100 million per annum) would also rapidly decrease especially as consumption steadily switched to robusta coffee (paragraph 11 above). By the end of the transition period with this switch and increasing arabica production in the A.O.T's the arabica market of third countries could have declined to 100,000 tons (i.e. a loss of 60 per cent of their present market) and perhaps nearly disappeared. A small market in highly specialized coffee not produced in the A.O.T's would no doubt remain.

24. To set out in approximate quantitative terms the argument of the paragraph above these members submitted the following table. It did not profess to give even the approximate statistical position in twenty years' time - clearly an impossible task - for example it ignored any possible change in total coffee consumption in the Six (which may be up or down - see paragraphs 9 and 10) and similarly it assumed a very conservative estimate of increased production, especially of robusta coffee. The table was intended to illustrate what could be the cumulative effect of the Treaty of Rome on the type of coffee consumed in the Six and on production in the A.O.T's, ignoring other factors leading to change.

<table>
<thead>
<tr>
<th>Market of Six after switch in demand</th>
<th>Estimated Minimum Production of A.O.T's</th>
<th>Market left for third countries in Six</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tons</td>
<td>Tons</td>
<td>Tons</td>
</tr>
<tr>
<td>Robusta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>300,000 to</td>
<td>450,000 to</td>
<td>Nil¹</td>
</tr>
<tr>
<td>400,000</td>
<td>550,000</td>
<td></td>
</tr>
<tr>
<td>Arabica</td>
<td></td>
<td></td>
</tr>
<tr>
<td>130,000 to</td>
<td>80,000 to</td>
<td>10,000 to</td>
</tr>
<tr>
<td>180,000</td>
<td>120,000 to</td>
<td>100,000 to</td>
</tr>
</tbody>
</table>

¹ A surplus from A.O.T's for export elsewhere
25. The adverse effects on third countries of this diversion of trade would be seriously increased by the competition likely to be offered in third markets by the surplus coffee of the A.O.T's not finding a market within the Community. The substantial margin above world prices received from their sales to the Community would enable exporters in the A.O.T's to subsidize their exports to third markets. Moreover, if financial incentives were offered by their governments to exporters of coffee from the A.O.T's to sell in third markets and particularly the dollar market on the lines adopted by the French authorities in recent years this effect would be multiplied. Production of robusta coffee in the A.O.T's could be increased to meet any likely requirements for such exports. Third countries were, therefore, threatened at one and the same time both in their markets of the Six and in third markets. This was particularly serious for those Latin American and other producers who have no sheltered market and whose main outlet was in the dollar area, since balance-of-payments restrictions have largely excluded them from other markets.

26. Any shrinkage in the markets of the Community owing to higher tariffs and internal taxes (paragraph 9 above) would wholly fall on third countries and they were not likely to enjoy an appreciable share of any eventual increase in consumption of coffee in the markets of the Community since there was every indication that production in the A.O.T's could keep pace with any likely increases in demand in the Community. In particular the robusta production of the A.O.T's should have no difficulty in taking up the increases in robusta consumption which would arise from switches in demand from arabica as well as from any overall increases in demand. Coffee producers in third countries would, therefore, be reduced to the position of residual suppliers of coffee to the Six, only supplying such small part of the demand as could not be met by the A.O.T's. This would be particularly important in any time of general recession when the discriminatory tariff alone (apart from other restrictions - see paragraphs 32 and 33 below) would force those coffee producers right out of the markets of the Community.

27. The representatives of the Six, on the other hand, considered that the estimates set out in the table (paragraph 24) seemed to have little foundation. They pointed out that it was highly unrealistic to compare estimates of production in the A.O.T's in twenty years' time with the present consumption of the Community. Imports had since 1952 sharply increased in the Six (from 390,000 tons to 496,000 tons in 1956) and consumption had certainly not reached a point of saturation. The use of coffee would moreover be fostered by the transitional activities of the recently established International Coffee Organization. If import requirements were to increase by only 50 per cent over the next twenty years - on the basis of present import trends a very conservative estimate - per capita consumption in the Six would still remain very far below that in the United States at present. In F.R. of Germany and France it could be considered that consumption would increase as a result of the price effects of the reduction of the import tariff; even if partly offset by a rise of internal taxes; in F.R. of Germany, in addition, the duty-free entry of coffee from the O.T's would induce an expanding demand. Higher consumption of robusta coffee, of which the O.T's were substantial producers, would be accompanied by a rise in demand for arabica, with which it was often blended, and it was moreover likely that concurrently with the increase in incomes the general consumption of high quality coffees would show a rising trend.
Fine robusta coffees like those produced by Angola would continue to be in demand because coffee beans of these varieties were sufficiently large to be added to arabicas in blends of roasted coffees.

28. As regards the estimates on future production, progress of coffee cultivation in the A.O.T's would certainly remain more modest. As indicated before, physical and financial factors limited the expansion of production of coffee in the A.O.T's and yields being generally low, producers obtained a profit which, except when prices were favourable, was insufficient to induce them to devote more efforts to their plantations, or to extend them. The long-term prospects for expanded production in the A.O.T's fell far short of the Community's requirements, which in any case would further be stimulated as a result of the implementation of the Treaty provisions.

29. These representatives further observed that a switch in demand in the Community from coffees sold by third countries to similar coffees exported by the A.O.T's would, if it occurred, free the markets which growers of the O.T's held in third countries. If, as had been argued, exporters in the A.O.T's were offered a gradually rising premium in the market of the Community for the types and qualities of coffee which they had to offer, they would not retain their markets in third countries where only world market prices could be obtained. Any such diversion, and indeed any effects resulting from the implementation of the Rome Treaty, would be moderate and only gradual and the maintenance of duty-free quotas would contribute to a progressive adaptation of the patterns of production and trade. Contrary to the views which had been expressed by some members, they believed that the preference of consumers for particular blends of coffees to which they were used was very strong and would not make possible large switches in demand from arabica to robusta even if prices of the latter variety became somewhat more advantageous. Outlets for third countries of arabica coffees were to gain in importance for the production in the A.O.T's would remain limited while consumption stimulated by growth in income and population would develop rapidly.

(ii) Effects on World Markets

30. The Working Party had agreed that there was already a prospective surplus of supplies of coffee in the world over prospective demand. This view had been put forward by a number of sources and took account of both substantial prospective increases in demand and the large additional supplies of coffee believed to be coming forward in the next few years. The representatives of most of the non-Six producers considered that, in addition to present supplies, the substantial further additional production artificially stimulated by the Treaty of Rome would now come forward from the Six's A.O.T's, so that a further substantial weakness in world coffee markets must result. When it was fully implemented the Treaty would thus have the effect in itself of reducing world coffee prices substantially causing a loss to outside producers of the order of £100 million per annum. Alternatively, outside producers would have to cut their own production back to make room for the additional production of the Six, and this would involve them in a comparable financial loss.
31. The representatives of the Six pointed out that any decline in world prices would affect producers not only in third countries but also in the A.O.T's, and 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. The stability of coffee markets in the future seemed to be endangered, particularly because of the prospects for expanded production in the rest of the world. Furthermore, the authorities in all the A.O.Ts were alert not to create an excessive dependence on one single agricultural commodity. Investments would preferably be channelled towards the exploitation of new agricultural, mineral and industrial resources.

II. Quantitative Restrictions and Agricultural Provisions of the Treaty

32. The representatives of most of the non-Six producers observed that quantitative restrictions within the Community could be of particular significance in the case of coffee. Such restrictions were at present applied by France to coffee from all sources except her O.T's thus excluding wholly or partly from that market most other producers including even those who had a traditional pre-war trade. Under the Treaty of Rome the other members of the Six had power to apply matching quotas which could be used to give the coffee production of the French A.O.T's a non-tariff preference in their markets. France could also use its own quota restrictions to give a non-tariff preference to the production of the Belgian A.O.T's in France, thus encouraging consumption of arabica coffee from those A.O.T's in her market (there is little room for more robusta coffee).

33. These representatives moreover drew attention to their general views on the inclusion of tropical products in Annex II to the Treaty (para. of main report) and agreed that since coffee was listed in Annex II to the Treaty of Rome, there was a strong possibility that the agricultural provisions of the Treaty would be applied to this commodity. This was particularly likely if the production of robusta coffee in the French A.O.T's rose to such a high level that some special form of inducement, over and above the discriminatory tariff, was found to be needed to ensure a market for all this coffee in the Six at high prices for producers e.g. if the switch in taste from arabica to robusta coffee was not rapid enough, or if there were a general recession in the coffee market.

34. If further discriminatory action on the above lines were taken to benefit the A.O.T's producers of coffee the adverse effects on the trade of third countries would be substantially enhanced. The diversion of trade would be accentuated. Third countries would be reduced to the position of minor residual suppliers and possibly excluded wholly from the market. A.O.T's producers would be enabled to offer even stronger competition in third markets and the world market would be further depressed. Moreover, those countries which had lost a pre-war market in the Six through balance-of-payments restrictions or other factors would be denied the opportunity of regaining a reasonable share of the market of the Six.

35. The representatives of the Six maintained that the situation outlined in the preceding paragraphs was highly hypothetical because it supposed that the Member States or the Community as a whole would continue in the future to be faced with balance-of-payments problems and difficulties resulting from the inconvertibility of currencies as they had experienced during the post-war transitional period.
They drew attention to the provisions of the Treaty that the Institutions of the Community, in shaping their commercial policy, would be bound to take into account the international commitments of the Member States.

36. As regards the agricultural provisions of the Treaty it was difficult to foresee whether and to what extent they would be applied to coffee, but the fact that a commodity was included in Annex II did not require the authorities of the Community to make it subject to the managed market regulations. On the other hand the inclusion of a commodity in that Annex made it eligible for the application of the provisions of paragraph 3 of Article 25 whereunder the Commission was empowered to suspend in whole or in part the collection of the uniform duty and to grant tariff—or duty-free—quotas, if no serious disturbance in the market of the product concerned would result. They further observed that the application of quotas could not take place except within the framework of a market organization, but nothing indicated that such an organization would be created, as producers could be guaranteed a sufficient remuneration by a system of price regularization similar to that existing in the French A.O.T's through price stabilization funds.

III. Summary of Views

37. Views of the representatives of most of the non-Six producers

38. Views of the representatives of the Six

PART FOUR

CONCLUSIONS

(Draft to be submitted)