Outline of - and passages proposed for - the Main Report

It is envisaged that the main report of the Working Party, to which the reports on individual commodities will be annexed, should be arranged under the following headings:

I. Introduction
II. Legal Issues
III. General Issues of an Economic Nature
IV. General Issues relating to the Treaty of Rome
V. Procedure adopted in considering particular commodities
VI. Collated summary of the reports on the individual commodities
VII. Conclusions

It was agreed during the second meeting of the Working Party that the representatives of the non-Six producing countries would submit the text of passages which they would wish to see included in the Working Party's main report and that these would be passed on to the representatives of the Six who would then prepare passages which they, for their part, would like to see included. The secretariat has received the text of the passages proposed by the representatives of the non-Six producing countries and these are set out in the following pages of the present document. When the proposals of the representatives of the Six have been received, a complete draft, including Sections I and VII (Introduction and Conclusions), will be prepared for consideration by the Working Party.
II. LEGAL ISSUES

At the commencement of the Working Party a representative of the Six made it clear that the participation of the Six in the discussions of the Working Party could not be taken as an admission on their part that they accepted any legal liability to correct any adverse trade effects which the Working Party might conclude would arise. In the view of the Six the Treaty of Rome was in conformity with the GATT so that no legal liability for compensation arose.

Representatives of non-Six producers argued that for their part they did not consider that the association of overseas territories, in the manner proposed, constituted a Free Trade Area in conformity with Article XXIV of the GATT and that, therefore, a new preferential area contrary to Article I was being created.

It was agreed that these were legal issues outside the terms of reference of the Working Party, and that the Working Party should merely regard them as issues which remained to be decided by the CONTRACTING PARTIES to the GATT.

The majority of the Working Party considered that the production in the French overseas departments in the Indian Ocean (Réunion) and in the West Indies (Guadeloupe and Martinique) should be considered for the purpose of the studies on sugar and bananas, together with the production of the associated dependent overseas territories. There were legal arguments (Article I and Annex B of the General Agreement on Tariffs and Trade) for doing so. However,
in any case it was necessary on economic grounds in order to come to a fair assessment of the overall effects of the association of overseas territories with the European Economic Community on third Member countries of GATT in accordance with the spirit of the terms of reference of the Working Group. It was agreed by the Working Party that the legal question involved was outside the scope of the Working Party and should be considered by the CONTRACTING PARTIES.
III. GENERAL ISSUES OF AN ECONOMIC NATURE

(a) The future economic structure of the Community

The Working Party noted that the Treaty of Rome created the framework only of a Common Market between the Six Member States. Different conclusions could be reached regarding the effects on trade of the association of overseas territories with the Community, depending on what assumptions were made as to the way this framework would be filled in by the Institutions of the Community.

The representatives of non-Six producers had noted that the high level of the duties already fixed in many parts of the Common Tariff, including many of the products they had examined in detail (e.g. sugar, tobacco, tea) had already created in these respects a highly protectionist economy. The duty-free entry of the products of the A.O.T's had established a new preferential tariff area which would cause serious diversions of trade.

Furthermore the agricultural provisions of the Treaty by their very terms pointed, not only to continuation of the present protectionism in the agricultural products of the highly industrialized Community itself, but also to new protection for many tropical products of no interest to the European farmer. An indication of the attitude of the Member States of some significance was the provision in the protocol on bananas by which the Federal Republic of Germany had undertaken to encourage the sales of bananas coming from the A.O.T's (see paragraphs of Annex on Bananas).
On the other hand, the representatives of non-Six producers recognized that the Member States had many external economic interests. Even if production developed greatly in the A.O.T's and in the Community, they would still have to draw supplies of many commodities wholly or partly from third countries. They would still, therefore, need to earn foreign exchange and, therefore, should be interested in retaining and developing many markets all over the world. In addition, the several important international marketing centres in Europe -- for instance, Rotterdam, Hamburg, Antwerp, Marseilles -- depended for their prosperity on the free flow of a high volume of international trade. It is no doubt for these reasons that certain Articles of the Treaty opened the door for possible alleviations of its present high protectionist features. The provisions for negotiating reductions of tariffs, for converting duties into internal fiscal taxes, and for introducing duty-free quotas could well be used to reduce the disturbance of traditional patterns of trade. There was also the possibility of applying lower rates than the new legal rates fixed in the common tariff. Moreover, the agricultural provisions of the Treaty were not mandatory, so that they need not be fully applied to all items in Annex II.

The representative of non-Six producers said there would clearly be both inward-looking and outward-looking forces at work within the Community. Neither would ever win completely, but they were afraid that the Community might become largely protectionist, especially with regard to the overseas territories. Here the relevant provisions of the Treaty were already highly discriminatory in their effects and might become much more so.
One early indication of which way the Community was moving would come from the general level of the tariffs fixed under List G and the use made in practice of the agricultural provisions of the Treaty. Other indications would be the extent to which duty-free quotas were introduced and the type of quotas then used (e.g. whether or not they were permanent and increasing with increasing demand). In the meantime, in the absence of any firm indications of the opposite, the representatives of non-Six producers felt they were justified in basing their arguments on the hypothesis that the Community might become highly protectionist.
(b) The scope of the discussions

Representatives of non-Six producers agreed that it would be appropriate to take note of the likely future of world trade in each commodity under discussion as background to their discussions. They argued, however, that, in conformity with the terms of reference of the Working Party, it should deal with the effects of the association of overseas territories on the trade of other contracting parties, and not go into all the factors relating to the future trade in the commodities under consideration. They believed that it was quite possible to carry out the economic analysis involved in isolating the particular influence of the association of overseas territories on the trade of each commodity. The many other factors which might influence market trends in the commodity had no real relevance for the purpose of this study, as such factors could not themselves be influenced by the association of overseas territories.

In particular, representatives of non-Six producers considered that such increases in consumption as might eventually arise within the Six from the establishment of the Common Market, were not relevant to the Working Party's discussions. The association of overseas territories with the Community had been presented to the GATT as complying with the definition of a Free Trade Area under Article XXIV and as separate from the Common Market of the Six themselves. It could, therefore, only be such increases in consumption as might arise from the association of the overseas territories which could be taken into account during any consideration, whether legal or economic, of this question in the GATT. Such increases did not in fact seem likely for most of the commodities under consideration, owing to the price rises which would be
caused by the new tariff levels and fiscal duties on these commodities. Moreover, it was uncertain whether or not national incomes would increase in the Community, purely as a result of the establishment of the Common Market. This would depend very largely on whether the institutions of the Community developed in an inward-looking or outward-looking way. Possible increases in consumption in the Community arising from the Common Market were, therefore, not only uncertain but in this context irrelevant.

Similarly, representatives of non-Six producers did not consider that the possibility of increases in consumption in the rest of the world could be regarded as in any way a factor helping to solve the problems created for the trade of third countries by the association of the overseas territories. These increases in consumption, if they occur, will arise irrespective of the signature of the Treaty of Rome and all producers would in any event have their share in the resulting increase in world markets. Moreover, many of the increases in consumption were expected to arise in the USSR, China and other countries whose trading methods are not in accordance with the spirit of the GATT. Other producers felt that sales in such markets would in any case be uncertain since they would be dependent from day to day on the whims of monopoly buyers.

Increases in consumption in other parts of the world could not in any case be regarded as a solution to the problems created for third countries by the association of the overseas territories with the Community. Producers had already based their production plans on the assumption that there would be such increases in world consumption so that a fall in their share of the demand for
their products in the Community must force a cutback on such production plans. Another factor leading to increased world consumption was the steady increase of population, but this same factor operating in producing countries required them to increase their own exports progressively in order to maintain, let alone increase, their standards of living.

While, therefore, representatives of non-Six producers did not object to consumption changes in the rest of the world, or in the Community, being mentioned in the reports on individual commodities, such references should not be taken as any acceptance by them of the arguments of the Six that these facts were of any real relevance to the discussion or could be regarded as helping to solve the problems created for their trade by the association of the overseas territories.
(c) **Tariff preferences**

It became apparent during the deliberations of the Working Party that an important issue was the internal effects on trade and prices of granting new preferences to the A.O.T's producers who were able to supply a considerable part of the markets of the Six. The Community by the end of the transition period will be creating substantial tariffs on the products of third countries and admitting the production of the A.O.T's duty-free, thus creating substantial preferential margins in favour of those territories. In all cases the production of the A.O.T's is significantly less than the market requirements of the Six as a whole. It was argued by representatives of non-Six producers that the effect of this would be to divert purchases by the Community from third countries to the associated overseas territories. Secondly, the price level in the Community would become higher than the world price by the amount of the common tariff. Thirdly, the returns payable to producers in the A.O.T's would be higher than those payable to producers in non-preferential markets by the amount of the preference. It was argued that under conditions of free competition these results were inevitable, since the importers of the Six would be faced by a choice of supplies, part of which would pay the tariff and part of which would not, and competition would quickly bring the prices of these two sources to the importers in line.

Representatives of the Six argued, however, that the desire to maintain existing trade channels and other factors would reduce the tendency towards a diversion of trade away from traditional markets. Similarly, the availability of cheaper supplies from the associated overseas territories could be used to keep down prices within the Community. They also referred to experience of the French and
British preferential systems to show that producers within a preferential area did not always receive more than the world price.

Representatives of non-Six producers pointed out that existing trade channels would not long withstand the price attractiveness of supplies from the preferential market. The experience of the French and British systems quoted was not relevant since in those cases the production of the preferential area exceeded demand. Where that was not so in the British system, the preference had been effective in giving producers the full benefit of the preferential margin in the tariff.
(d) Duty-free quotas

The Working Party had some discussion on the economic effects of duty-free quotas such as the duty-free banana quota for Germany and the duty-free coffee quotas for Italy and Benelux. Representatives of the Six argued that such duty-free quotas would keep down prices to consumers in the Six and maintain existing trade channels. Representatives of the non-Six producers pointed out, however, that in certain circumstances, depending upon the administration of such quotas, the price level within the Community would remain at world price plus full duty, but an additional profit would accrue either to importers or to overseas suppliers. Moreover, if the quotas were granted to overseas suppliers on the basis of trade in some previous years, trade patterns would be frozen and third countries would be denied any opportunity to increase their proportionate share of the market or to enter the market if they had not been suppliers in the datum period. Third countries would also be forced to interfere with normal trade practices in their territories to allocate the quotas since such quotas might be of considerable value to exporters.

Duty-free quotas which ensure to present suppliers their full present share of the market of the Six and full participation in any increases in that market, would certainly go a long way towards mitigating the effects of the new preferential duties on the trade of third countries, though they would still raise administrative problems and freeze the existing pattern of trade. On the other hand, quotas which decline progressively (as the coffee quotas for Italy and Benelux) will only give small and temporary relief to the trade of third countries.
(e) Participation in the growth of demand

Representatives of the Six argued that even if production of the A.O.T's increased there would still be a substantial trade remaining for third countries as there would be a substantial increase in consumption arising from the creation of the European Economic Community. In such circumstances no problem would arise for the trade of third countries.

Representatives of the non-Six producers said that they could not accept the general proposition that third countries had no cause for concern if the fall in the sales of their products in the Six resulting from the association of the overseas territories were offset by increased demand consequent on the establishment of the common market. It was fundamental to the whole philosophy of GATT that all countries should be allowed to participate in any growth there may be in world trade. To allow third countries merely to maintain their existing absolute level of sales to the Six while denying them opportunities to participate in any growth there may be in demand, would clearly be contrary to that philosophy. In any case it was the view of the non-Six producers that there would not be, purely as a result of the establishment of the Common Market, such an increase in demand in the Community for the commodities dealt with by the Working Party as to offset appreciably the increased production in the A.O.T's. Consequently, the absolute level of third countries' exports of these commodities to the Six would tend to fall and their proportionate share of the market would be reduced sharply.
IV. GENERAL ISSUES RELATING TO THE TREATY OF ROME

(a) The calculation of the Common Tariff

Representatives of the non-Six noted that in a number of cases, e.g., tea, the calculation of an arithmetic average did not take account of the size of the respective imports of the various members of the Six from third countries. In such cases it was generally true that the largest importers of the Six had the lowest tariffs so that a weighted average would have produced a significantly lower common tariff.
(b) Fiscal duties

Articles 17 and 22 of the Treaty of Rome relate to customs duties of a fiscal nature. It was explained by a representative of the Six that under these Articles Member States may inform the Commission as to which of their customs duties are of a fiscal nature, that the Commission will decide to what extent such duties shall be taken into account in determining the arithmetical average for arriving at the Common Tariff on items not in Lists F and G. This could lower the duty on certain products considered by the Working Party, e.g. tea.

It was pointed out that the Commission can take no action to allow for the fiscal nature of a particular duty, in calculating the average, unless it is so notified by a Member State. Moreover, it is entirely within the competence of the Commission to decide what part of such duties shall be included in the calculation of the average. The Commission is required to "take due account of the protective aspect of such duties", but representatives of the Six could not say how the Commission might interpret this instruction. It was also noted that under Article 22 a Member State could challenge the decision of the Commission and have the rate fixed by negotiation. Representatives of the Six said that, as far as they knew this could only mean that, at worst, the duty would be restored to its arithmetical average value.

In view of all these provisos representatives of non-Six producers did not feel that they could set any store by the argument that certain tariffs might be reduced below the arithmetical average under this procedure. Furthermore, whether or not the Commission
decide under Article 22 to lower the arithmetical average of a duty it would still be open to each Member State to introduce internal taxes to compensate itself for any loss of revenue arising from the introduction of the Common Tariff. Since there will be a loss of revenue from the admission duty-free of A.O.T. production, the internal compensatory tax will need to be greater than the reduction in the duty level, so that the total levy on the product will be greater than before and prices to consumers correspondingly increased.

In any case it was made clear by the representatives of the Six that there is no possibility of the rates on items in List F being reduced by the above procedure since the rates are fixed. Nevertheless, it is still open to Member States to notify the Commission that the duties levied on an item on List F are of a fiscal nature and to convert such duties into internal taxes in accordance with Article 17(3). In such a case the Member State concerned would levy both the Common Market tariff on the item and an internal fiscal tax. Representatives of the non-Six producers were apprehensive that this offered considerable scope for increasing the overall incidence of duty on List F items, even to a point well above the 1957 incidence.
(c) Applied versus legal rates

Representatives of non-Six producers pointed out that for certain List F items, e.g. cocoa, tobacco, sugar, the common tariff was well above the average of the tariff rates in effect on 1 January 1957. Representatives of the Six pointed out, however, that the level of the Common Tariff was below the arithmetical average of the legal rates which could have been applied on that date, although they were not effectively in force. They argued that this basis of calculation was valid since the possibility existed of revoking the exemptions at any time and effectively applying the legal tariff. The representatives of non-Six producers said, however, that the effective rates had been in operation during the whole post-war period and definite patterns of trade had grown up on that basis.

So far as the calculation of the arithmetical average was concerned, representatives of the Six argued that they had gone beyond their obligations under the GATT in using the applied rates under the terms of Article 19 of the Treaty in arriving at the arithmetical average. Representatives of non-Six producers said that whether effective or legal rates should be used for determining the Common Tariff was a legal issue under the GATT which was still unresolved. However, apart from this, it seemed to them that the use of legal rates in determining the duty on an item such as cocoa, tobacco, etc., could only have been either for raising revenue or to give an even greater margin of preference for the protection of the A.O.T.'s. Since revenue could always be safeguarded by introducing internal taxes (see paragraph ) it was clear to them that the object was to increase the preferential margin.
Representatives of the Six also pointed out that the Treaty of Rome was establishing in the Common Tariff a new legal tariff with all the consequences which flow from that position. The Working Party agreed that in the absence of information to the contrary it would have to work on the assumption that the legal tariff of the Community would be the effectively applied tariff.
(d) **Duty-free quotas**

Attention was drawn during the discussions to the possibilities inherent in Article 25 of the Treaty for creating new duty-free or reduced-duty quotas. Representatives of the Six explained that this Article was intended to permit Member States access to accustomed sources of supply from third countries, and thus to avoid undue disturbance to existing patterns of trade. Most of the commodities discussed by the Working Party are covered by paragraph 3 of Article 25 which reserves wholly to the Commission the power to authorize Member States to suspend duties. The representatives of the Six could not say precisely to what extent the Commission would use this power, but they considered that it would be used sufficiently to prevent much of the disturbance to trade which other members of the Working Party feared might arise.

The representatives of non-Six producers considered, however, that even if it were to be very much in the interest of a particular Member State to have a duty-free quota on a particular commodity in Annex II, there was no guarantee that the Commission would grant it. Moreover, the proviso to the Article "that no serious disturbance in the market of the products concerned may result therefrom" might well be used as an argument against granting special tariff quotas once the A.O.T's had built up their trade with the Community. A substantial use of such quotas would, moreover, destroy the value of the preferential margin granted to the A.O.T's and, if that were done, there was no point in having introduced a preferential margin on behalf of the A.O.T's in the first place. It seemed to them most unlikely, therefore, that many additional tariff quotas would be granted. The representatives of non-Six producers felt, therefore, that account need not be taken in the Working Party's discussions of the possibility of such duty-free quotas being granted.
Representatives of the non-Six noted the undertaking of the Six that they would apply the provisions of Article XIII of the GATT in their administration of any duty-free quotas. This is a matter to which the non-Six producers attach considerable importance.
(e) **Tropical Items appearing in List F and List G**

Representatives of non-Six producers drew attention to the fact that a substantial number of tropical products were included in List F and List G. So far as List F was concerned, they felt that the fact that the drafters of the Treaty had spent time deciding on the level of the Common Tariff for these tropical items, not produced within the Community, could only be explained by the assumption that it was desired to create a substantial preference in these items on behalf of the A.O.T's. The same point arises on the inclusion of tropical commodities in Annex II of the Treaty.

So far as List G is concerned the fact that some Member States were apparently not satisfied with the duty which would arise by calculating the arithmetic average again implied that those Member States desired a higher duty in order to provide an effective preference for the A.O.T's.

Representatives of non-Six producers also pointed out that in List G there were a number of items representing the semi-manufactured products from tropical items, e.g. cocoa butter, cocoa paste, chocolate, coffee extracts, etc. There was no reason to suppose that these semi-manufactured items could not be produced in due course in the A.O.T's. The inclusion of these items in List G appeared to indicate, therefore, that Member States had in mind the possibility that a preference might be introduced for these items which would be even more effective in its incidence than the duty on the raw materials themselves. Thus production in the A.O.T's would be encouraged and existing trade patterns would be further dislocated.
(f) **Harmonization of Tariffs**

Attention was drawn to Article 21(2) of the Treaty which authorized the Council to make adjustments in the Common Tariff with a view to ensuring internal harmony within it. Representatives of the non-Six producers considered that this provision of the Treaty might be used to raise the duty on certain tropical products in order to bring them in line with duties on competing products, e.g. the duty on cocoa might be raised to bring it in line with, say, coffee. In this way the preferential margin in favour of the A.0.T's could be further increased.
(g) Accelerated Introduction of the Preferential Margins

Representatives of non-Six producers pointed out that by virtue of Article 24 of the Treaty, it would be possible for Member States to raise their duties against the products of third countries more rapidly than the stage-by-stage procedure laid down in Article 23 of the Treaty. Similarly, Article 15(2) declared a willingness to carry out the reduction of duties on the products of other members of the Community, including the A.O.T's, more rapidly than the normal stage-by-stage procedure "if the general economic situation of Member States and the situation of the sector concerned so permitted". Representatives of the non-Six producers considered that those provisions of the Treaty might well be used to make the full preferential margin on the products of the A.O.T's effective well before the end of the transition period. In the absence of any assurance from the Six that such an accelerated procedure would not be adopted, they felt that due account should be taken of this possibility in the deliberations of the Working Party.
(h) **Quantitative Restrictions**

The Working Party noted that in most of the commodities it considered, France was applying quotas on the imports of third countries to protect its balance-of-payments position, while admitting the products from its own overseas territories without restriction. It was recalled that at the Twelfth Session the question of quantitative restrictions had been discussed at length and that the Six had then claimed the right to deviate from Articles XI to XIV to achieve the objectives of the Customs Union by removing quantitative restrictions differentially amongst themselves. Representatives of non-Six producers considered that the powers the Six had claimed under the Treaty and the GATT in this respect might be used to enable the other Member States to apply substantially the same quotas as France applies to the products of third countries and for France to remove its quotas on the products of the overseas territories of other members of the Six. In that way substantial non-tariff preferences would be created over and above any preference arising from the common tariff. It was pointed out that such a non-tariff preference could be far graver in its effect on the trade of third countries than a tariff preference since it could become an absolute bar to the products of third countries.
(i) **Agricultural Provisions of the Treaty of Rome**

Most of the products considered by the Working Party are tropical agricultural products listed in Annex II to the Treaty of Rome and, therefore, subject to the agricultural provisions of the Treaty. Representatives of non-Six producers considered that the only reason for including such a large number of tropical items in the Annex could have been that Member States intended to apply the agricultural provisions to create non-tariff preferences for the products of the A.O.T's. The representatives of non-Six producers pointed out, moreover, that for many products France already operated a form of managed market for the benefit of the products from its own overseas territories. Since France could not dismantle these arrangements without causing serious harm to the trade interests of its overseas territories, the only alternative would seem to be to extend them throughout the Six. Similarly, in tobacco, bananas and oilseeds monopolies were already in existence in Member States and there would be a tendency to extend them.

In the absence of any undertaking of the Six that the agricultural provisions of the Treaty would not be applied to tropical products, the representatives of non-Six producers felt, therefore, that they were fully justified in assuming that those sections of the Treaty would be so applied in ways which would create substantial additional preferences for the A.O.T's. They considered that such action by the Community was particularly likely at a time of declining demand, and could then be used to ensure a market for the A.O.T's production within the Six at maintained prices.
In particular, the representatives of the non-Six producers considered that under Article 44 of the Treaty minimum prices might be fixed by each Member State for the tropical agricultural products from the A.O.T's, suspending or reducing exports from third countries to preserve the minimum prices, or requiring the exports of third countries to be offered at prices exceeding the minimum. This would ensure for the A.O.T's, not only a market in the Six for the whole of their production, whatever it might become, but also give them the minimum prices laid down, no matter how much out of line with world prices such prices might be.

Alternatively, under Article 45 of the Treaty, Member States individually or collectively could enter into long-term contracts to purchase the total output of the A.O.T's. The quantities purchased could, under the terms of the Treaty, increase as production increased up to the total requirements of the market. The prices paid under these contracts would not necessarily bear any relation to world prices and, in that connexion it was noted that paragraph 3 of Article 45 permitted payment to Member States to compensate them for any excess prices paid to the A.O.T's compared with world market prices. To ensure a market in their territories for the products thus bought, Member States would have to apply restrictions to their imports from third countries. It was even conceivable that products thus purchased and not required internally would be resold on third markets at a loss, thus further damaging the trade of third countries.
Thirdly, under Article 40(2) a common marketing organization for the products concerned could be set up to operate as an import monopoly, buying the total import requirements of the Six and reselling them internally. Products not listed in Annex II could be controlled in this way since such monopoly organizations are not prohibited by the Treaty. The only provision in the Treaty relating to monopolies (Article 37) merely provides that such monopolies should not discriminate against the products of other Member States (which presumably includes the A.O.T's). Such monopoly buying organizations could, and naturally would, take up first the total output of the A.O.T's at good prices to producers and would only then turn to other sources for residual supplies. A monopoly could average out the prices from the two sources of supply to sell at an average price to consumers, or it might even sell the products of the A.O.T's at a discount in order to stimulate demand for the particular qualities and varieties produced in those A.O.T's.

The creation of non-tariff preferences on behalf of the A.O.T's in any of the above ways would be particularly injurious to the trade of third countries, since no matter how efficient their producers might be they could never compete against the preferred supplies from the A.O.T's. As prices paid to the A.O.T's could be kept above world prices their products could be completely isolated from the play of market forces. Production in the A.O.T's would be artificially stimulated and third countries would be steadily forced out of the market of the Six until they had no share in it whatever, however much consumers in the Six might prefer their products. This is of particular concern to producers of such products as coffee and tobacco in which major changes of taste can be enforced by the gradual changing of blends.
It was also pointed out by representatives of non-Six producers that in the discussion of this problem in Sub-Group C of the Committee on the Rome Treaty at the Twelfth Session, great stress was laid on the effects that these provisions could have on countries whose economies depend mainly on the exports of one or a few agricultural products. To be completely excluded from the markets of the Six on the lines indicated above would be far more disastrous for their economies than the exclusion of one or two products of more highly developed countries which had many lines of production to fall back on.
V. PROCEDURE ADOPTED IN EXAMINING PARTICULAR COMMODITIES

The Working Party divided consideration of each commodity into three parts:

(a) an examination of the factual position of the commodity under the Treaty;
(b) an analysis of the pattern of world trade; and
(c) a discussion of short-term and probable long-term effects of the provisions of the Treaty.

The report on each commodity is, therefore, divided up similarly into three parts.

Under (a) above the Six provided very detailed information in respect of each commodity and the Working Party wish to record their thanks to the Six for the very great efforts they made to supply this information at short notice and for the further explanations given during the course of the discussions.

Under (b) above the secretariat collected very full statistics of the trade in the commodity concerned both on a world basis and in particular relation to the trade with the Six. This detailed statistical information has never been brought together before and it was a great help to the Working Party to have this information available during its deliberations.
VI. COLLATED SUMMARY OF THE REPORTS ON
THE INDIVIDUAL COMMODITIES

There were present, either as members of the Working Party or as observers, representatives of many of the major producers, outside the Community, of the commodities discussed. Though representatives of all these producers normally spoke in the discussion, almost invariably the statements of one producer on any commodity were fully supported by every other producer of that commodity. In the individual commodity reports the statements of particular producing countries are not attributed, therefore, to them but are ascribed as the collective views. For convenience the phrase "representatives of non-Six producers" is used in this report to denote all producers represented other than the members of the Community. Several other members of the Working Party and observers present shared the views of the producers of particular commodities.

The following summary collates the views expressed in the individual commodity reports showing the extent that they have aspects in common either generally or in relation to particular groups of commodities.
Examination of the Factual Position under the Treaty of Rome (Part One of the Commodity Annexes)

(a) The duty position

The Working Party examined in great detail the information supplied by the Six on the position of each commodity under the Treaty of Rome. It noted that, apart from those commodities on which the Common Tariff is zero, a position will be gradually created during the transition period in which the Member States will apply a common tariff to the production of third countries while the products of the A.O.T.'s will be admitted duty-free to the whole of the market of the Six. This is to be compared with the present situation in which the production of the French and Italian overseas territories is admitted duty-free under a preferential tariff system into their respective metropolitan territories only. Similarly, the production of the Belgian overseas territories is in general admitted duty-free into Benelux, though in a few cases it pays the same tariff as supplies from third countries.

Representatives of non-Six producers considered that these new arrangements could only be regarded as the extension of the preferential régime existing in the metropolitan territories for their overseas territories to a preferential régime covering the markets of all Member States of the Community. In those cases, moreover, in which the common tariff is higher than the tariff previously charged by a metropolitan territory on third countries (e.g., coffee in Benelux) the arrangements amount also to an increase in the preferential margin in such metropolitan territories on behalf of their own overseas territories. The commodities considered in which the A.O.T.'s are, or could become, important suppliers of the Six and in which this new preferential system will, therefore, apply throughout the Six (with the amount of the preference) are:

- cocoa (9 per cent),
- coffee (16 per cent),
- tobacco (30 per cent),
- bananas (20 per cent),
- sugar (80 per cent),
- tea (35 per cent).
The rate at which this new preferential tariff system will extend throughout the Community is also of importance. The following table shows the rate at which the preference will become effective in Germany, if the provisions of Articles 14 and 23 are followed:

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The position is generally the same for the other Member States except for minor variations owing to the differences in the present tariff rates and to the maintenance in metropolitan territories of duty-free entry for their own overseas territories. It has already been noted (paragraph above) that the full preferential rates could be introduced earlier under the provisions of Articles 15 and 24 of the Treaty of Rome.

A number of commodities discussed in the Working Party are in List G, i.e. their tariffs are still to be settled by negotiation between the Member States. Unless the tariff is eventually fixed at zero, a new preferential system will similarly be created on behalf of the A.O.T's throughout the markets of the Six on these items also. The commodities in which this would be important, in that the A.O.T's are either present or potential suppliers on a large scale are:

vegetable oils, aluminium, tropical timber ...
(b) Fiscal duties

The discussion of the Working Party on fiscal duties has already been recorded in paragraphs above. In this discussion it emerged that in certain cases, inclusion of the fiscal element in the calculation of the common tariff had raised the tariff substantially. If full regard had been had to the fiscal element in the present tariffs, the preference on behalf of A.O.T's would have been substantially lower in the case of certain commodities. The views of representatives of non-Six producers as to what the duty should have been on this basis for these commodities are approximately as follows:

- cocoa (0 instead of 9 per cent), coffee (5 instead of 16 per cent), tea (10 per cent instead of 35 per cent), tobacco (5 per cent instead of 30 per cent).

Representatives of non-Six producers expressed the hope that full consideration would be given to the possibility of reducing duties under Article 22 to take full account of fiscal elements in present duties and also to take the same point into account when fixing duties under List G.
Background Information on Trade, etc.,
(Part Two of the Commodity Annexes)

(a) General

The Working Party considered the information supplied by the secretariat and from other sources, e.g. the Food and Agriculture Organisation on the present trade patterns of the commodities concerned.

It was noted that several of the commodities concerned were of considerable importance in world trade. The attached table gives the value of exports of the more important commodities discussed and the percentage they constituted of world trade in agricultural products. It will be seen that the Working Party had considered commodities representing overall per cent of the world exports of all tropical agricultural products and per cent of world trade of all agricultural products.

The commodities considered were in many cases of great importance in the export trade of primary producers. Thus the territories in which more than 33 1/3 per cent of their export trade is represented by one of the commodities considered (with the actual percentage) are:

(1) Non-Six GATT Members

Ghana (cocoa, 70 per cent), Dominican Republic (sugar, 47 per cent), Brazil (coffee, per cent), India (tea, per cent), Ceylon (tea, 63 per cent).

United Kingdom Dependencies - Grenada (cocoa, 60 per cent), Kenya (coffee, 47 per cent), Zanzibar (cloves, 80 per cent), Barbados (sugar, per cent), Mauritius (sugar, per cent), Uganda (coffee, 38 per cent), St. Kitts (sugar, per cent).
(iii) Member States

French Dependencies - Cameroons (cocoa, 60 per cent),
Togoland (cocoa, 50 per cent).

(iii) Other countries

Some of these countries are also substantially interested in
other commodities considered, e.g. Brazil is interested in cocoa
( per cent) as well as coffee, Dominican Republic in cocoa (12 per
cent), coffee (26 per cent), as well as sugar (48 per cent), Cuba
in tobacco as well as sugar.

In addition other primary producers are dependent not on one
single commodity but on a number of the commodities considered by
the Working Party.

Indonesia in

Tanganyika (21 per cent, coffee), (24 per cent, sisal),
(7 per cent, oilseeds), etc.

The economic health and hence the political stability of these
under-developed countries is clearly greatly dependent on the
maintenance of adequate and stable prices and of expanding markets
for these commodities. In the light of these considerations the
Working Party approached its task with due regard to the gravity
of the problems with which it was dealing.
(b) Trade of the Six

The Six Member States of the Community will form collectively a very important market for the commodities considered by the Working Party. On present import figures they collectively import 32 per cent of world supplies of cocoa, per cent coffee, per cent tobacco, per cent sugar, per cent oilseeds, per cent bananas.

Thus over the whole field they are roughly one-third of the total world market in these primary tropical products. Any economic or political change which may affect the patterns of the import trade of the Six in these commodities is, therefore, bound to have very substantial repercussions on the world markets for these commodities and hence on the exporting countries concerned.

Moreover, the market of the Six is for some territories even more important than average figures indicate. The following GATT countries are particularly dependent on the Six for markets in the commodities shown (with the per cent of their trade in the commodity going to that market in brackets).

Ghana (49 per cent of its cocoa), Indonesia (93 per cent of its cocoa),

Indeed for some countries the Community is a very important market for all their exports, e.g. Indonesia sends per cent of its total exports to the Community.
The metropolitan territories of the Six are also important markets for the products of their respective overseas territories. Thus France takes a very large part of the production of its overseas territories, e.g.

Per contra, moreover, France draws a very large part of its imports of many of the commodities considered from its overseas territories. Similarly, the products of Italian Somaliland go almost wholly to Italy. The Belgian overseas territories are less dependent on Benelux as a market (e.g. coffee per cent only to Benelux, etc.) and Benelux draws only a small part of most of its requirements from these overseas territories. In general the other markets of the Six have not as yet been important buyers of the products of the A.O.T's.

As the attached table shows, the Community as a whole takes at present a part only of its import requirements from the A.O.T's and the total production of the A.O.T's falls short of the Community's total import requirements.

**Types and varieties**

In the case of some commodities considered the Working Party found that the question of varieties was important in that the A.O.T's produce certain varieties only. Where this issue was important, e.g. in coffee, bananas and tobacco, the Working Party analyzed the trade in the different varieties so far as it had information to do so.
Substitutes

The Working Party noted that for most of the commodities considered there were substitutes, either direct, e.g. replacement of palm oil by whale oil, copra by palm kernels, or indirect, e.g. competition between tea and other beverages. This is a very large and complex issue and the Working Party only touched on it to the extent that it was necessary to obtain a general view of the situation. It may well be, however, that in the course of time substitution could become of major importance for particular commodities, especially those on which the Common Market tariff is substantial.

Semi-manufactured and manufactured products

The trade in many of the commodities considered is complicated by the semi-manufactured products from them which also enter into world trade. In some commodities it is already of major significance, e.g. vegetable oils expressed from oilseeds, cocoa paste, etc. from cocoa, plywood from timber. In other commodities it may become so. The Working Party, therefore, examined the trade situation on these semi-manufactured products where it seemed relevant. Since the A.O.T's may in time develop the processing of their primary products to a much greater extent than at present, the trade in these products may in time radically alter the existing trade patterns in the commodities considered. Any tariff or other preferences accorded to the processed products could, therefore, become important.
There is also the trade in the finished products made from these raw materials to be considered, e.g. margarine, soap, cotton textiles, jute goods, chocolate. A substantial part of the production of such primary products enters world trade as an ingredient of these finished products, but the Working Party could do no more than take note of the possible complications arising therefrom. Eventually, following the general trend of economic development, the A.O.T's may themselves become substantial producers of such finished products from their own raw materials which will have further repercussions on the trade of third countries.

**Entrepôt trade**

The Benelux is an important entrepôt market for many of the commodities considered, as also are the United Kingdom, Singapore, etc. In some cases the commodities are processed or blended in bond (or even out of bond) before re-export. This trade is of great value to these countries, but it complicates any analysis of the patterns of trade from the statistics since in many cases import trade statistics (e.g. of the Six) show these items as imports from the entrepôt countries and not from the countries of origin, and export statistics frequently show the entrepôt and not the final destination. This is a well-known fact in trade statistics and the Working Party did not attempt in the time available to reconcile all the various figures available. The issue was, however, examined in particular cases when the figures made a major difference in showing a territory's real interest in the markets of the Six. The Working Party would, however, like to suggest that some effort be made to disentangle the Netherlands trade figures so that a more accurate picture can be obtained of that part of its re-export trade which goes to the rest of the Six and that part which goes elsewhere.
Future prospects of world supply and demand

The Working Party gave some consideration to the future prospects of world supply and demand of most of the commodities examined as background information for its studies. It was able to obtain in most cases an indication of future trends for several years ahead, but in the long-term the trend will be affected by many unknown factors.
The Problems created for the Trade of Third Countries
(Part Three of the Commodity Annexes)

The Working Party found in the course of its work that it was necessary first to analyze the effects within the Community and the A.O.T's before going on to analyze the consequential effects on the trade of third countries. The reports on the commodities considered are divided accordingly. The reports also deal separately with the effects that the new tariff régime will have on trade and with the effects that the possible application of certain other provisions of the Treaty might have on trade.
1. The New Tariff Regime

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

(1) Effects on prices

It has already been noted in paragraph above that a new preferential régime will be created for the A.O.T's throughout the total market of the Six and that (see paragraph above) for all the commodities considered the combined market of the Six is at present substantially less than A.O.T. production. Representatives of non-Six producers considered, in accordance with the general arguments set out in paragraph above, that these two factors operating together would ensure that prices in the Community would be the full Common Market tariff above world market prices. Similarly, the exporters selling to the Community on behalf of the producers in the A.O.T's would receive the same percentage premium above the prices payable to producers in non-preferential markets for those commodities. The price premiums involved for the commodities considered were cocoa 9 per cent, coffee 16 per cent, tobacco 30 per cent, sugar 80 per cent, tea 35 per cent...

These price differentials would be gradually established during the transition period and would be in full operation once the provisions of the Treaty of Rome in relation to that product had been fully applied, which could be sooner than the end of the transition period.

For those commodities in which duty-free quotas have already been established (bananas, coffee) or in which quotas may be established by the Commission in the future, the analysis is more complicated.
Representatives of non-Six producers considered, however, in accordance with the arguments set out in paragraph above that only actual experience of the quotas will show whether these quotas will prevent the price premiums referred to above being fully established. In any case, the tariff quotas so far fixed are small in relation to the whole import trade of the Community, are on a decreasing scale and might not continue after the end of the transition period. Their ultimate effect on price and trade could, therefore, only be marginal unless they were substantially increased and made permanent.
(ii) Effects on Demand

Representatives of non-Six producers considered that since prices in the Community of most of the commodities examined would be above world prices this would be a factor tending to discourage demand. For certain commodities the increase in price above present levels will be very substantial, e.g. cocoa and tea in Benelux, sugar in Germany ...

so that the discouragement to demand in these cases will be severe. Moreover, representatives of non-Six producers considered (see paragraph above) that in those cases where the common market tariff level was lower than present import duties, there would be a strong tendency for governments of the Member States concerned to use the authority given them under the Treaty (Article 17(3)) to impose compensatory internal consumption taxes to safeguard the revenue. These taxes would counterbalance (and in some cases more than counterbalance) the reductions in import duties, so that consumption would not rise in these territories to offset the fall in consumption in other parts of the Community.

Demand might in certain circumstances eventually recover in the Community for some products (though not necessarily for all). As already indicated however (paragraph above) representatives of non-Six producers did not consider that any such increase in demand would in any way reduce the seriousness of the problems created by the association of the overseas territories.
Representatives of non-Six producers furthermore considered (see paragraph above for the general argument) that under the influence of the new preferential tariff importers in the Six would quickly turn to the A.O.T's as the first and preferred source of their supplies and would only purchase from third countries after supplies from the A.O.T's were fully taken up. This would begin to happen immediately, and in the case of some commodities where the preferential tariff in favour of the A.O.T's is substantial this switch will be complete, insofar as supplies from the A.O.T's are available, by the end of the first period (e.g. coffee, tobacco, tea). In the case of cocoa, coffee, vegetable oils, sugar, bananas, the differences in quality between the products of the A.O.T's and third suppliers are not such as to prevent an immediate switch under these price incentives.

For certain other of the commodities considered, however, quality differences arise, e.g. arabica coffee compared with robusta coffee from the A.O.T's, tobacco. In these cases the representatives of non-Six producers considered that the influence of the price premiums inherent in the preferences would encourage a gradual switch away from the grades and qualities at present imported by the Member States towards the products of the A.O.T's. Accordingly, they considered that the consumption of robusta coffee from the A.O.T's instead of arabica coffee from third countries would be encouraged; similarly, the air-cured and fire-cured cigarette tobaccos of the A.O.T's will replace flue-cured tobacco from third countries and French West African timber will replace other tropical timbers.
(iii) Effects on production in the A.O.T's

The representatives of non-Six producers held that the new tariff regime will guarantee a market for the A.O.T's in the whole Community substantially above their present level of exports (see table ). In many commodities (coffee, robusta coffee, groundnuts etc) the French A.O.T's were already producing or were on the point of producing more than France could consume. Benelux has always been a small market for the Belgian A.O.T's. Access to the whole Common Market on preferential items would, however, radically alter the situation and act as powerful new stimuli towards increased production in the A.O.T's. A guarantee of a large market is always the greatest stimulus of all towards increased production. It will have its effect, not only on the farmers themselves, but also on the officials and others whose responsibility it is to guide and promote agricultural activities, encourage disease control, develop new varieties, organize the opening up of new areas of production and advise on the choice of crops. Under their guidance the expansion of production could be very rapid indeed. This would still happen even if producers only received the world price for their products.

However, the representatives of non-Six producers believed that the premium prices received by export A.O.T. products would be largely passed on to producers. In the case of stabilization schemes since, unlike temporary upswings of market prices, these premia could be regarded as permanent and could be safely passed on to producers. This guarantee of a price above the price received by other producers would also foster production,
especially in the introduction of higher yielding cultivation practices and the opening up of new areas. It was pointed out that for several commodities production at present world prices was already very profitable in Africa and the addition to this price of a new premium would give an appreciable extra return on the cost of establishing new farms.

The representatives of non-Six producers pointed out that in some of the commodities considered e.g. sugar, tea, cocoa and coffee, there had been very substantial increases in recent years in the A.O.T's and there was evidence of recent planting which should maintain this high rate of increase for some years to come. These increases, though they have been initiated before the Treaty of Rome, will have appreciable effects on trade in the future. Moreover they indicate the possibilities of further expansion, under the new stimulus of the much bigger market now open to the A.O.T's on preferential terms.

The representatives of the non-Six producers carefully considered the evidence on whether sufficient land, labour and capital would be available to permit further substantial increases in the A.O.T's. Land and labour in any case need not be a problem, since there were now available higher yielding strains to replace old plantings and methods of pest and disease control which could increase yields on existing land and with existing labour very considerably. However, the experience of the A.O.T's themselves and of neighbouring British and other territories showed that sufficient suitable land should be available in the A.O.T's for substantial further increases in production. FAO statistics showed that there was at least three times as much productive land available in these territories than was at present under cultivation.
As to labour, evidence from the British territories in Africa showed that there was considerable under-employment of Africans at present and that appropriate stimuli could bring forward substantial additions to the labour force. There were also large movements of labour from the A.O.T's into British East Africa which in time might stop or even be reversed. Moreover, population was growing steadily in the A.O.T's and the death rate should decline as conditions improved so that the labour force should be substantially greater in fifteen to twenty years' time than it is today.

As to capital, there have in recent years been very heavy French investments in Africa which it is understood will be continued and even be increased in the future. Efforts were being made to attract private capital from Germany and Benelux into the French overseas territories and such capital will in future have full rights of establishment there. These countries have considerable experience of tropical agricultural development and the new preferential arrangements will attract that experience and the necessary capital into the A.O.T's. The Investment Fund set up by the Treaty, which has been fixed for the first five years at $500 million will contribute to the construction of those basic services, including transport, which are a prior condition for the opening up of African territories.

Representatives of the non-Six producers took note of the estimates put forward by representatives of France as the maximum possible increase in production in the French overseas territories. They considered, however, that these estimates, although they indicated substantial rises, were too pessimistic in that they
did not take sufficient account of the cumulative effect of the important influences arising from the Treaty mentioned above which would tend to stimulate production. In addition it was felt that the estimates given by the French representatives would not be such as would satisfy the political and social aspirations of the peoples in the A.O.T's. It was also noted that the estimates for increases in production in the Belgian Congo and Ruanda-Urundi were substantial and it was believed that these rapidly developing territories with their wealth and considerable resources of agricultural and technical skill would maintain these high rates of development. They considered that their views on the potentiality of Africa were fully supported by many independent observers as well as by statements made in other contexts, of experts of the Member States. They believed that the Member States had as yet failed to appreciate how much the creation of the next large preferential market for the A.O.T's would turn these potentialities into actualities so far as the A.O.T's only were concerned.

Having regard to all these factors, representatives of non-Six producers considered that it would be reasonable to assume that the minimum additional production which would be forthcoming in the next fifteen to twenty years as a result of the association of overseas territories with the Community would be of the following order:
cocoa 50,000 tons
robusta coffee
arabica coffee
bananas
sugar
cigar filler tobacco
dark tobacco
tea
oilseeds and vegetable
oils
B. Effects on Trade of Third Countries

(i) Effects on the Patterns of Trade

Representatives of non-Six producers considered (paragraph above) that importers in the Member States of the Community would give priority on their purchases to the products of the A.O.T's enjoying the new preferential tariff. This would cause diversion of trade from third country suppliers of those commodities to the A.O.T. suppliers and thus cause disruption of traditional trade channels. Such trade shifts, which will commence immediately, will be considerable by the end of the first period of tariff change and will become fully effective by the end of the transition period. The scope for immediate diversion of trade is shown in the following figures of the exports of the A.O.T's which at present go to third countries:

- cocoa
- coffee
- tea
- vegetable oils

As production in the A.O.T's grows during the coming years this diversion of trade will inevitably become more severe. For example, robusta coffee from third countries should be completely shut out of the markets of the Six in a few years. Since representatives of non-Six producers consider that the new preferential system will in itself further stimulate production they consider that by the end of the transition period the total effect would have snow-balled into a major dislocation of trade. The increase of production in some commodities will by then have been so great in the A.O.T's that the whole of the present
market of the Six will have been largely taken up by A.O.T. production. Even if the market expands, which is by no means always certain, such an expansion will be a further stimulus to production in the A.O.T's so that in some cases the A.O.T's are likely to be able to take up the whole of any such expansion. The expansion of consumption will thus not be such as to ensure a maintenance of the present volume of the sales of third countries to the Six, still less an expanding one. For the reasons given in paragraph above, representatives of non-Six producers considered that any increase in consumption in the Six would in any case be no answer to the problems arising from the creation of this new preferential area.

In the case of some commodities the tariff preferences will be instrumental in causing a shift in consumer preference to the particular grades or varieties produced in the A.O.T's and will lead to a diversion of trade away from the varieties produced by third countries, e.g. a diversion from arabica coffee to robusta coffee, from flue-cured tobacco to dark tobacco, etc. In other cases, the tariff would seem to be designed to price the commodity out of the market of the Six in order to divert consumption to alternative products of the A.O.T's or the Community. For example tea consumption will be reduced in favour of coffee and other beverages.

The present trade of third countries with the Six which representatives of non-Six producers believe is in jeopardy, has the following approximate value at present prices:
cocoa US $ 75 million
robusta coffee 30 million
arabica coffee 250 million
cigar filler tobacco
other tobacco

Not all their trade is immediately at risk. In some cases e.g. robusta coffee it may well be lost in a few years, while in others an appreciable part of it may remain after the end of the transition period. Nevertheless the new preferential system places it all "at risk".

A further effect of the new preferential regime must be that third countries will be reduced to the role of residual suppliers of the Six only supplying such part of the markets of the Six as cannot be filled at the time by the A.O.T's. This implies that at any time of falling consumption in the Six the consequent reduction in demand for imports will be borne solely by third countries. Their share in the trade of the Six will thus decline disproportionately. For those countries which are particularly dependent upon the markets of the Six, this could have especially serious consequences during any depression.

The adverse effect of this diversion of trade could be seriously increased by the competition which may be offered in third markets by the A.O.T's in some of the commodities considered (e.g. coffee and sugar). The substantial margin
above world prices received from their sales to the Community will enable exporters in the A.O.T's to subsidize their exports to third markets. Moreover, Member States may offer financial incentives, as they have done in the past, to exporters of these products to sell in third markets - particularly in the dollar area - in order to earn foreign currency. Third countries could thus be threatened at one and the same time by the A.O.T's both in their markets in the Six and in third markets. This is particularly serious for Latin American and other producers who have no sheltered market and whose main outlet must be the dollar area, since balance-of-payments restrictions exclude them from many other export markets.

Diversion of trade is a legitimate cause for complaint under the GATT, even when there is a corresponding increase in markets elsewhere, in that new outlets would have to be developed. Representatives of non-Six producers considered, moreover, that in most commodities examined there will be a much greater loss over the long-term of trade in the Six because of the increased production of the A.O.T's than will be gained elsewhere from the diversion of the present small A.O.T's trade with the outside world. Indeed, there will by then in some cases even be a loss of markets in third countries as the result of competition of subsidized supplies from the A.O.T's.

As many under-developed countries represented in the GATT are greatly dependent on the commodities considered and as the markets of the Six are such an important part of the world market in most of the commodities considered (see paragraph above) the serious consequences of this diversion of trade for these countries can be readily understood. Some GATT members aro
dependent upon the markets of the Six for a very large part of their sales (paragraph above) and these will be hit particularly heavily. Producers not enjoying any preferential markets, such as those in Latin America, Indonesia, etc., would also suffer especially from this dislocation of existing trade patterns. The development plans of all other producers of these commodities would have to be reduced and the losses of revenue caused thereby would affect other development plans and even standards of living, having regard to their rising populations. Not only was discrimination in trade being created by the association of the overseas territories, but discrimination in development.
(ii) Effects on World Markets

Representatives of non-Six producers considered that the new tariff preferences in the Community would, by artificially stimulating production in the A.O.T's and depressing demand in the metropolitan countries of the Six, force third countries to try to find markets elsewhere for a considerable part of their present exports to the Six. This accretion of supplies in markets outside the Six would tend to create an imbalance between supply and demand in such markets with a consequent downward pressure on world prices. In a large number of commodities considered large fluctuations in prices can be caused by relatively small excesses of supply or demand. At the present moment, moreover, world markets for many of these commodities are either in a sensitive state of balance or actually depressed. In such a situation the anticipated additional production of the A.O.T's (paragraph above) could have an effect on world prices proportionately much greater than the percentage increase in world production they would represent. This depression of world prices would affect all third country exporters whether or not they sold to the Six.

Since many territories represented in the GATT, and other countries are heavily dependent on exports of either a single one or a limited range of these commodities (paragraph above), the adverse effects on their economies of an appreciable decline in world prices would be most serious.

Rising consumption elsewhere might or might not counterbalance this depressing influence on world prices, but even if it did in the absence of the depressing influence producers would have received much more. Whether the world market moves
up or down, due to other factors, this depressing influence will still be appreciably reducing the returns of third countries. Moreover, as noted in paragraph above, representatives of non-Six producers did not consider that increases in consumption in other parts of the world, such as Eastern Europe, could be regarded as any solution to the problems created for their trade by the association of overseas territories with the Community.

Moreover, since trade in these commodities forms an appreciable part of the total of world trade in primary products the cumulative effect of such declines in prices and/or sales of the individual commodities would have a significant effect on world trade as a whole, leading to substantial reductions in demand for other primary products not produced in the A.O.T's and for manufactured products. This would, in turn, affect the exports of industrialized countries, including the Six themselves.

Additional adverse effects on world trade would arise if the Member States decided to impose substantial tariffs on the items in List G, produced or producible in the A.O.T's, e.g. vegetable oils, tropical timber and aluminium.
2. Non-Tariff Arrangements

The use which might be made of quantitative restrictions and the agricultural provisions of the Treaty to give substantial additional non-tariff preferences to A.O.T's are set out in paragraphs above. The operation of these provisions of the Treaty was thought to be particularly likely in the case of oilseeds, sugar and tobacco. It would, however, be possible to make use of them over the whole range of tropical agricultural products included in Annex II. The ways in which the provisions could be operated to give non-tariff preferences are set out in paragraph above. Article 38(3) of the Treaty also leaves the way open for other "products of the soil" to be added to Annex II. This could extend the operation of the agricultural provisions to such commodities as cotton, sisal and rubber which are not at present covered in Annex II, and would thus make it possible to grant non-tariff preferences to the A.O.T's in these products as well.

Since quantitative restrictions and monopoly buying organizations, etc., could be operated to exclude other producers totally from the markets of the Six in the interests of A.O.T. producers, no matter how competitive their production might be, the effect of these non-tariff preferences on the trade of third countries could be much more serious even than a tariff preference.

In the case of those commodities which already enjoy a tariff preference the agricultural provisions could be operated to reinforce the protection it provided. For example, the change of taste in the Community towards the varieties of tobacco, coffee, etc., produced by the A.O.T's could be encouraged
and even enforced by suitable control measures. The use of these provisions, or the knowledge that they might be invoked, would also tend further to stimulate production in the A.O.T's. The harmful effects of the new preferential regime would thus be greatly enhanced. Indeed, for those commodities such as oilseeds on which there is no preferential tariff margin, the possibility and in some cases, such as oilseeds, the probability that use will be made of these non-tariff arrangements constitutes the most likely source of damage to the trade of third countries. If the agricultural provisions were applied to such products a diversion of trade could be achieved to ensure a market in the Six for the whole of the existing export potential of the A.O.T's. This diversion of trade could be extended as necessary to ensure that any increases in A.O.T. production are absorbed in the markets of the Six. This process could continue up to the point of excluding completely the products of third countries if production in the A.O.T's rises sufficiently.

Moreover at a time of falling world prices there would clearly be a special incentive to use these provisions of the Treaty to safeguard the returns of producers in the A.O.T's. If they are so used, production will then be artificially maintained and even expanded in the A.O.T's with the result that world prices will decline even further and the full effects of the recession will be borne by producers in third countries, no doubt forcing them to cut back production substantially.
The above influences could produce a substantial dislocation of international trade, which would be accentuated by production increases in the A.O.T's. The result could well be a major depression in world prices of the commodities concerned. For example, if these provisions of the Treaty are applied to oilseeds, they could cause a loss to third countries of as much as $200 million per annum.

Semi-Manufactured and Manufactured Products

Representatives of non-Six producers pointed out that for many of the commodities considered there were semi-processed or processed products which were to receive tariff preferences or might receive them depending on whether the tariff under List G was fixed at above zero or not. Examples were cocoa paste, butter and chocolate liquor from cocoa; cotton textiles; jute manufactures; coir products; sisal products.

For most of these products the exports of the processed products from the A.O.T's were at present negligible, but under the stimulus of a tariff preference, especially if that preference were to be effectively of more value than the preference on the raw material, production and exports would grow.

If these developments were to occur demand in the Community would shift from the raw materials or the processed products of third countries to the processed products of the A.O.T's. Diversion of trade would thus occur - a diversion which would increase steadily as production in the A.O.T's grew. World prices of the raw materials and the finished products would be adversely affected.
These developments need not be confined to products based on the raw materials of the A.O.T's. Raw materials (e.g. jute and cotton) could be imported and processed for re-export duty-free to the Community. Investors in the Community might well be attracted by conditions in the A.O.T's, particularly the availability of relatively cheap labour, to encourage the growth of such industries on a substantial scale, possibly to the detriment of manufacturers as the European Community itself, as well as third country suppliers.
3. Summary of Views

A. Summary of Arguments and Conclusions of Non-Six Producers

Duty-fixed items - cocoa, coffee, bananas, tea, sugar, tobacco

The representatives of non-Six producers, having carefully considered the arguments of the Six, set out above, held to their view that the new preferential tariff system created in respect of these commodities by the association of the overseas territories would in general raise prices in the Community above world market prices by an amount equal to the full Common Market tariff. Similarly producers in the A.O.T's would receive a corresponding premium above world market prices. This would tend to reduce demand in those Member States which previously had lower tariffs. Furthermore, demand throughout the Community would be turned towards the products of the A.O.T's away from the products of third countries. A guaranteed market would thus be created for the whole of the A.O.T. production at premium prices. Since the total market of the Community is much larger than the preferential areas at present open in their respective metropolitan countries to the A.O.T's this is a substantial new factor which must have the immediate effect of stimulating production in the A.O.T's. A careful examination of the circumstances of each commodity had led to the conclusion that the result must be much higher production in the A.O.T's by the end of the transition period than would have been the case without this new stimulus.

The immediate effect on the trade of third countries would be to initiate the progressive diversion of trade away from the products of third countries to the benefit of the A.O.T's. This diversion of trade would increase as the preferential element in the tariffs was raised in stages and as production in the A.O.T's expanded. The result would
be that by the end of the transition period, the diversion would be so great as to alter radically the pattern of trade of Member States. In these commodities the trade of third countries with the Six which would thus be placed in jeopardy amounted to $\ldots$ million (1956 figures).

Third countries would consequently be reduced to the role of residual suppliers to the Community so that even if that market expanded (which was by no means certain for several of these commodities) they would only be able to supply such part as A.O.T. producers could not fill. They would thus be deprived of their legitimate opportunity to participate fully in the growth of the market. On the other hand, any decline in imports would be concentrated on the products from third countries. In some cases there was also likely to be competition in third markets from subsidized A.O.T. production which would seriously increase the damage to the trade of third countries.

Furthermore, both the artificially stimulated production in the A.O.T's and the reduction in demand, which could be caused by the Treaty of Rome, would exert a serious downward pressure on world prices affecting all producers, (N.P. whether or not they sold to the Community.) These adverse effects on trade of third countries would be multiplied if the Community made use of its powers under the Treaty to give non-tariff preferences to the A.O.T's. The only reason for inserting tropical products which are not produced in the Community into Annex II to the Treaty could be that the Six intended to apply the agricultural provisions of the Treaty to these commodities in such a way as to give a non-tariff preference to the A.O.T's. Quantitative restrictions could be used in a similar way.
The effect of such non-tariff preferences would be particularly serious at a time of declining demand, since they could then be used to maintain price levels and demand for A.O.T. products in the Six. The full brunt of any recession in the Six could thus be thrown on to third country suppliers of these commodities.

The semi-processed and processed products which can be extracted from most of these commodities could also receive tariff preferences. This would encourage manufacture in the A.O.T's, causing further distortion of trade patterns and further losses by third countries exporting either the raw materials or the products.

The above arguments would apply with equal force to any other commodity subject to a tariff under the Common Market since that would automatically create a new preference in that item on behalf of A.O.T. production. The preferences would not only stimulate the output of commodities already exported by the A.O.T's, but would also encourage new lines of production for export to the Six.

List G items - vegetable oils, timber, etc.

In particular, if tariffs are fixed on those commodities where the duty remains to be determined by negotiation between the Member States (List G) a preference would be created. This was particularly important in the case of vegetable oils and tropical timbers already produced in the A.O.T's and there were indications that appreciable duties might indeed be fixed on these items. If so the new preferential tariffs created would cause substantial diversion of trade.
Other commodities affected by agricultural provisions of the Treaty - oilseeds

Even those commodities which are admitted duty-free into the Community could be harmed if the Community were to create non-tariff preferences on behalf of the A.O.T's. For example, oilseeds, although admitted duty-free into the Community, are in Annex II to the Treaty. The agricultural provisions of the Treaty would probably be applied to them in such a way as to give a non-tariff preference to the substantial oilseeds production of the A.O.T's. The effect of such a preference would certainly be to ensure that all Six Member States of the Community would first take up all available supplies from the A.O.T's before turning to third countries. This assurance of a much larger market would also act as a substantial stimulus to further production in the A.O.T's. Thus the application of the agricultural provisions of the Treaty in cases like this could cause appreciable diversion of trade from third countries to A.O.T. suppliers. This diversion of trade would increase progressively as production grew in the A.O.T's and there would consequently be a tendency to drive down world prices of these items also.

Duty-free items - cotton, hard fibres, jute

These items are to be admitted duty-free into the Community and are not in Annex II of the Treaty. No harm should be caused to the trade of third countries provided:

(a) the duty remained free;
(b) quantitative restrictions were not applied to these commodities in ways which gave a non-tariff preference to the A.O.T's;
(c) they were not added to Annex II and hence were kept outside the ambit of the agricultural provisions of the Treaty; and
(d) no government sponsored arrangements were made with manufacturers in the Community to give preference to A.O.T. production.

However, since there was some production of cotton, sisal, coir, jute substitutes in the A.O.T's, any form of preferential treatment in these items could prejudice the trade of third countries.

Overall effects on export trade

The Working Party covered during the five weeks of its discussions a very substantial part (over per cent) of the export trade in agricultural products of the associated overseas territories. It also covered two representative metals - aluminium and lead. Representatives of non-Six producers consider, therefore, that the Working Party is now justified in reaching certain general conclusions about the problems which the association of overseas countries and territories with the Community raises for the trade of other contracting parties. Such conclusions will not be basically altered by the consideration of additional commodities exported by the A.O.T's nor by the examination of the commodities imported by the A.O.T's although it is possible that new areas of potential or actual damage may be uncovered during such examination.

The total exports of third countries to the Six in cocoa, coffee, bananas, sugar, tobacco, tea, oilseeds, vegetable oils, timber, plywood ... amounted to $ m. in 1956. It has been established in the commodity reports that a substantial part of this
trade is in jeopardy or may be jeopardized by actions of the Six permitted under the Treaty of Rome.

Within this overall total $\text{ }\text{ }\text{ }$ million represents trade in cocoa, coffee, bananas, tea, sugar and tobacco. For these commodities the provisions of the Treaty must cause substantial damage by the end of the transition period to the trade of third countries, unless the institutions of the Community take definite steps to avoid such damage. Indeed in some cases, e.g. robusta coffee, heavy damage to the trade of third countries will arise early in the transition period. Countries which are particularly dependent on their trade with the Six in these items and which, therefore, are likely to be particularly and directly adversely affected are Ghana (cocoa), Indonesia (90 per cent or more of most commodities exported are sold to the Six), Nigeria (cocoa, oilseeds), Uganda (robusta coffee) and the Dominican Republic (sugar, tobacco, bananas).

Moreover, it is considered that world prices will be materially affected in the commodities given in paragraph above. Experience since the war has shown that relatively small differences in the world supply/demand relationship can cause swings of 15 per cent or 20 per cent in the free market world prices of these commodities. The new preferential system created by the association of overseas territories with the Community will have adverse effects on this relationship, unless the Six take prompt and positive steps to avoid them. The total exports of all non-Six producers of these commodities was $7,000 million in 1956.
The extent to which this trade will be damaged cannot be precisely estimated, but on the basis of the detailed arguments already advanced in the various commodity reports there are grounds for believing that non-Six producers will be receiving, by the time the Treaty is fully in force, overall at least $750 to $1,000 million per annum, less than they would have done in the absence of these adverse influences on world trade. Many other changes will come about in world trade during the next fifteen years, but these will not, it is considered, be themselves influenced by the association of overseas territories so that these other changes have no bearing on the validity of the argument.

This figure of $750 - 1,000 million, although high in itself, does not portray the full significance of the damage which can be caused to trade by the association of overseas territories. In the particular sector of the world trade directly affected, the agricultural commodities produced in the A.O.T's are the main tropical and semi-tropical agricultural products entering into world trade. This is not surprising in that the A.O.T's are a substantial block of countries lying in the tropical belt. Many other countries also lie in that belt and, unlike some of the A.O.T's they have at present little or no wealth from other sources (such as minerals). The percentage of their total export trade (and hence of their national wealth) dependent on these particular tropical items is, therefore, even higher than for most of the A.O.T's. The full details are given in Appendix A to this report (see column ) but the following table picks out those countries particularly dependent on these commodities, regard being had to the proportion of their trade with the Six and the degree of direct damage likely to be suffered in the particular commodities on which they are largely or wholly dependent:
In addition, it will also be noted from Appendix A that many other countries have cause for alarm in that, although they do not always have one particular commodity of great importance to them gravely endangered, they rely largely for their export trade on a number of commodities in each of which some part of their trade is threatened. The cumulative effect for them will, therefore, be as serious as it will be for a country like Ghana which is almost wholly dependent upon the export of one commodity affected. Thus an examination of the table shows that the export trade of many under-developed countries in all parts of the world is endangered by the association of overseas territories with the Community.

In particular, it will be noted that a substantial proportion of the total trade of almost all countries in Africa south of the Sahara is seriously endangered. These countries range from Ghana, Gambia, Ethiopia, British East Africa, Nigeria (in itself one-third of the population of
this part of Africa) in the north of the area, down to Rhodesia, Portuguese East Africa and the Union of South Africa in the south. These countries contain 70 per cent of the population of this part of Africa and export 75 per cent of its total exports, as compared with 30 per cent of the population and 25 per cent of the export trade in the A.O.T's. Even within Africa, therefore, the greater part of the trade and more people are likely to be adversely affected by the association of overseas territories than are likely to gain from it.

Moreover, the territories likely to be adversely affected are not confined to Africa. Ceylon is threatened in tea and coconut products - over 72 per cent of its total trade; India in respect of tea, manufactured jute products and vegetable oils; the Philippines in coconut products, sugar, timber - 74 per cent of its trade; Indonesia - per cent of its trade which is, moreover, largely with the Six.

There are, moreover, many countries in Central America, South America and the Caribbean for whom over 70 per cent of their trade (and in some cases 90 per cent) is in the same agricultural commodities as are produced by the A.O.T's. These countries have to sell their products wholly in non-preferential markets at world prices. They have, therefore, particular cause to fear substantial damage to their export trade arising from the association of overseas territories. They include Brazil, Dominican Republic, Colombia, Haiti, Costa Rica, Ecuador and Guatemala. Other territories in this
and other areas are not so directly threatened because they have special trade arrangements in some commodities, but even for them a significant part of the returns they receive for their products is dependent on world prices. They include Cuba, British West Indies, British Guiana, British Honduras, Mauritius and many Pacific territories.

All these under-developed countries have an export economy and are dependent for their wealth solely on the export of these and other primary products to world markets. Their whole economic well-being, therefore, is dependent upon the maintenance of adequate and stable prices and the steady development of export markets. Owing to rising populations, these countries need steadily increasing incomes in order to maintain present standards. Moreover, all these countries have ambitious development plans in accordance with the desires of their peoples for advancement. These involve imports of capital equipment which again can only be financed by increases in export earnings. If, therefore, the external trade earnings of these territories cease to grow, and still more, if they are actually reduced by the association of overseas territories, living standards will fall and development plans must be curtailed. This in turn must affect their demands for imports of all kinds - primary products, consumer goods and capital goods. The direct damage which the association of overseas territories will do to the export trade in the products already considered will thus be multiplied by the indirect effects and will reach other countries including industrialized countries like the Six themselves. It is to be hoped that in fifteen years world trade will have grown substantially for other reasons, but it is clear that the present proposals for the association of overseas territories with the Community will act as a serious brake on that expansion.
The Six under the Treaty state that their objective in associating the overseas territories with the Community is "to lead the inhabitants of the A.O.T's to the economic, social and cultural development they expect". This is a desirable aim which is shared by those responsible for the well-being of all other under-developed countries. However, it has been shown that the methods by which the Six are attempting to achieve their objective - the creation of a new preferential area - is likely to affect adversely the economic, social and cultural development of other territories with similar living standards to the A.O.T's and exporting the same goods.

It is within the powers of the institutions of the Community to mitigate the adverse effects on the trade of other under-developed countries by avoiding discrimination and by interpreting the provisions of the Treaty in a liberal fashion.

The representatives of non-Six producers believe that the Six have so far seriously under-estimated the harm that they may do to the trade of other countries and now that the discussions on the Working Party have made the dangers clear, they hope and trust that the Six will try to achieve their objectives by methods not damaging to others, in accordance with the basic principles of the GATT.