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

Addendum to Draft Report to the Intersessional Committee

ANNEX A

1. Summary of the Views of Most Members of the Working Party

The following is a summary of the views of most of the Working Party based on the discussions which took place during the Session of the Working Party. The countries represented on the Working Party sharing these views are:

- Brazil
- Ceylon
- Chile
- Dominican Republic
- Ghana
- India
- Indonesia
- Pakistan
- Federation of Rhodesia and Nyasaland
- and the United Kingdom.

2. The following countries which sent observers to the Working Party also share these views:

- Australia
- Canada
- and the Union of South Africa.

A. Summary of the Commodity Discussions

(i) The Consensus of Opinion Amongst Non-Six Producing Countries

These representatives wish to draw attention to the fact borne out in each commodity report that the opinions expressed therein as the views of "representatives of producing countries other than the Six" are in most cases the views on the commodity in question of all important exporting countries represented in the GATT, other than the Six; for cocoa, coffee, tea, bananas, tropical timber, jute, hard fibres, aluminium and lead they represent more than 95% by volume of the non-Six exporters. In these cases, moreover, apart from bananas (for which a large block of exporters are not in the GATT) they represent a very high proportion (over 80%) of world supplies, apart from the Six. For the other commodities considered the views are those of an overwhelming majority of the GATT members exporting these products (viz. tobacco, oilseeds and vegetable oils, cotton, sugar ...).

(ii) The Importance of the Issues Involved

The A.O.T.'s of the Six are within the tropics and are important producers of cocoa, coffee, bananas, tobacco, oilseeds and vegetable oils, cotton and tropical timber. They are also producers of tea, sisal, sugar and a whole range of other agricultural commodities. In minerals they are important producers of bauxite, copper ores, cobalt and iron ore.
5. As importers, moreover, the Six as a group constitute a
large section of world trade in all the above commodities,
representing in most cases at least one-fifth of the world
market and sometimes as much as one-third. Any change in the
trading relationships of the Six with the outside world in these
commodities is bound, therefore, to have the most serious repercus-
sions for the present suppliers of the Six and for world
trade as a whole.

(iii) Effects of the New Arrangements on Patterns of Trade
with the Community

6. The Treaty of Rome provides for the admission of A.O.T.
production duty-free into the Community while, at the same time,
erecting a common external tariff barrier against the products
of all other countries. This can only be regarded as the
creation of a new large preferential system of major economic
significance to world trade. Previously all countries had
equal access to the German market, while only the products of
the French and Italian overseas territories received preferential
treatment in France and Italy respectively, and the products of
the Belgian and Netherlands overseas territories generally
received similar treatment in Benelux. The products of these
overseas territories will now have access on preferred terms to
the whole market of the Community - a market which is much
larger than the preferential market previously enjoyed by any
one group of overseas territories.

7. It is also significant that in many of their agricultural
products the A.O.T.s are already producing, or are on the point
of producing, more than the total requirements of their respec-
tive metropolitan preferential markets. On the other hand,
in every case, their production is at present substantially less
than the requirements of the whole market of the Six. Access to
this market on preferential terms has, therefore, come at a very
opportune moment for the A.O.T.s.

8. For many cases considered by the Working Party a substanc-
tial preferential margin on behalf of the A.O.T.s has already
been fixed under the Treaty, viz. cocoa 9%, coffee 16%, bananas
20%, tea 35%, tobacco 30%, sugar 80%, plywood 15%. For other
commodities on which the tariff is yet to be determined, viz.
vegetable oils, timber, aluminium and lead, a substantial
preferential tariff may be created.

9. Such tariff preferences will influence importers in the
Member States of the Community to give priority in their
purchases to the products of the A.O.T.s. This will cause
diversion of trade from third country suppliers of those
commodities thus disrupting traditional trade patterns. The
influence of these new arrangements will be felt immediately,
and will in most cases be considerable by the end of the first
period of tariff change. The following (1956) figures of the exports of the A.O.T.s to third countries which will now be attracted into the Community give a measure of the scope for immediate diversion of trade:

<table>
<thead>
<tr>
<th>Volume (OOO Metric tons)</th>
<th>Value (U.S. $ m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cocoa</td>
<td>36</td>
</tr>
<tr>
<td>Coffee</td>
<td>64</td>
</tr>
<tr>
<td>Bananas</td>
<td>18</td>
</tr>
<tr>
<td>Sugar</td>
<td>25</td>
</tr>
<tr>
<td>Tropical Timber</td>
<td>n.a.</td>
</tr>
<tr>
<td>Vegetable Oils</td>
<td></td>
</tr>
<tr>
<td>(groundnut, palm and palm kernel only)</td>
<td>62</td>
</tr>
</tbody>
</table>

As production in the A.O.T.s grows during the coming years this diversion of trade will inevitably become more serious. For example, robusta coffee from third countries could be completely shut out of the markets of the Six in a few years.

10. The new preferential system will in itself further stimulate production by giving A.O.T. producers an assurance of a large new market at prices in many cases substantially above world prices. The arguments on this issue are set out most fully in the coffee report. In general it is felt that the Six have seriously underestimated the magnitude of the increases in production which will arise in the A.O.T.s from the stimulus of the access to this new preferential area. This additional production will tend further to exclude the products of third countries in the markets of the Six, so that by the end of the transition period the total effect will have snow-balled into a major dislocation of trade. The increase of production in the A.O.T.s will by then have become so great in many commodities 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 certain in many cases, 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 a large part of any such expansion. The growth of consumption will then 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. In any case third countries will not enjoy the unhampered access to that increased market on which they had based part of their production plans. The
possibility of an increase in consumption in the Six is in any case not regarded as an answer to the problems arising from the creation of this new preferential area.

11. The tariff preferences will encourage in some cases a shift in consumer preference to the particular grades or varieties produced in the A.O.T.s and will thus lead to a diversion of trade away from the kinds 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 could be reduced in favour of coffee and other beverages.

12. During 1956 the Member States of the Community imported from third countries the following:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Volume (000 metric tons)</th>
<th>Value (U.S. $ m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cocoa</td>
<td>166</td>
<td>113</td>
</tr>
<tr>
<td>Coffee</td>
<td>258</td>
<td>399</td>
</tr>
<tr>
<td>Bananas</td>
<td>334</td>
<td>99</td>
</tr>
<tr>
<td>Sugar</td>
<td>609</td>
<td>54</td>
</tr>
<tr>
<td>Tropical Timber</td>
<td>1000</td>
<td>n.a.</td>
</tr>
<tr>
<td>Vegetable Oils</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(groundnut, palm and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>palm kernel only)</td>
<td>187</td>
<td>57</td>
</tr>
<tr>
<td>Tea</td>
<td>20</td>
<td>29</td>
</tr>
<tr>
<td>Tobacco</td>
<td>153</td>
<td>185</td>
</tr>
<tr>
<td>Aluminium</td>
<td>124</td>
<td>82</td>
</tr>
</tbody>
</table>

This is a measure of the trade which is in jeopardy. It is not suggested that all this trade is immediately at risk. In some cases, e.g. robusta coffee it will almost certainly be lost in a few years, while in others an appreciable part may remain after the end of the transition period. Nevertheless, the new preferential system places it all "at risk". The trade in List G items which will similarly be placed in jeopardy if a preferential tariff is introduced was, in 1956:-

Tropical timber

Vegetable oils

Aluminium
13. 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 supplying only 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 recession of trade.

14. 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 (e.g. in coffee and sugar). Exporters in the A.O.T.s will be enabled to undersell their competitors elsewhere because of the substantial margin above world prices they will receive from sales to the Community. Moreover, in order to earn foreign currency, export promotion measures may be used to encourage sales in third markets—particularly in the dollar area. Third countries would thus be threatened at one and the same time 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.

15. 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 will have to be developed. In any case, in most commodities there may, over the long-term, be a much greater loss of trade with the Six because of the increased production of the A.O.T.s than will be gained elsewhere from the diversion of the present A.O.T.'s trade with the outside world. Indeed, there will 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.

(iv) Effects on World Markets

16. Moreover, it is considered that there will be a tendency to depress world prices of these commodities. Experience since the war has shown that relatively small differences in the world supply/demand relationship can cause wide fluctuations 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, both directly, by tending to reduce demand and stimulate production, and indirectly by reducing the size of the world free market and thus rendering it more sensitive to variation.
17. It is shown in detail in the commodity reports that the world trade in certain commodities may be seriously affected. The value of total exports by all non-six producers of these commodities amounted to some $7,000 million in 1956. A substantial degree of damage to this trade seems inevitable. The loss of export earnings involved will not, of itself, be a full measure of the damage suffered. To assess this consideration must be given to the impact of such losses of export earnings on the weak economies of the under-developed countries producing these commodities.

(v) Non-Tariff Arrangements

18. The Six have claimed they have the right under the GATT to apply quantitative restrictions in ways which discriminate against the trade of third countries. This could be used to give substantial additional non-tariff preferences to the A.O.T.s. Moreover, the only obvious reason for inserting tropical products, not produced within the Community, in Annex II of the Treaty is that the Six intend to use the agricultural provisions to give such non-tariff preferences to the A.O.T.s. Action on these lines is most likely in the case of coffee, oilseeds and vegetable oils, sugar and tobacco. It is possible, however, over the whole range of tropical agricultural products included in Annex II and even for other "products of the soil" which could be added thereto. The operation of these provisions could thus be expanded to such commodities as cotton, sisal and rubber.

19. In the case of those commodities which are to enjoy a tariff preference the agricultural provisions could be operated to reinforce the protection it will provide. 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.

20. In respect of vegetable oilseeds for which there is to be no preferential tariff 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 in this commodity, which amounted to $110 million in 1956 with the Six. If such action is taken a substantial part of this trade will be at risk, especially having regard to the possibilities of increasing oilseeds production in the A.O.T.s.

21. 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 of any agricultural commodity 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.

22. Since quantitative restrictions and monopoly buying organisations, 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 the production of the former 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.

(d) Semi-manufactured and Manufactured Products

23. For many of the commodities there are semi-processed or processed products which are to receive tariff preferences or which might receive them depending on the level of the tariff fixed under List G. Examples are cocoa paste, cocoa butter and chocolate liquor; cotton textiles; jute manufactures; coir products; sisal products; aluminium. The exports from the A.O.T.s of most of these processed products are at present negligible, but under the stimulus of a preferential tariff (especially if that preference were to be effectively of more value than the preference on the raw material) production and exports would grow.

24. If these developments do occur, demand in the Community will 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 will thus occur - a diversion which will increase steadily as production in the A.O.T.s grows. World prices of the raw materials and the finished products will be adversely affected.

25. These developments need not be confined to products based on the raw materials of the A.O.T.s. Raw materials (e.g. bauxite and cotton) could be imported by them and processed for re-export duty-free to the Community. As experience has shown under similar conditions elsewhere, investors in the Community will 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, to the detriment of manufacturers in third countries and even those in the European Community itself.
(vii) **Duty-free items - cotton, hard fibres, jute**

26. 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 remains free;

(b) no quantitative restrictions were to be applied to those commodities in ways which would give a non-tariff preference to the A.O.T.s;

(c) they are not added to Annex II and hence are kept outside the ambit of the agricultural provisions of the Treaty; and

(d) no government sponsored arrangements are made with manufacturers in the Community to give preference to A.O.T. production.

Since there is some production of cotton, sisal, coir, jute substitutes in the A.O.T.s, any form of preferential treatment in these items would prejudice the trade of third countries.

(viii) **Other Commodities and Types of Trade Affected**

27. The Working Party had not yet had an opportunity to examine all the commodities exported by the A.O.T.s (though it has dealt with the main ones), nor has it examined the commodities which are imported into the A.O.T.s from the Six. Countries have submitted a list of which is subjoined hereto in respect of a large number of additional commodities on which they fear diversions of trade. These aspects of the trade of the A.O.T.s will no doubt be examined in due course, having regard to the terms of reference of the Working Party:

- Spices (pepper, cloves)
- Cassava (sago, tapioca)
- Wattle Bark and Extract
- Pineapples
- Lentils, peas and beans
- Pyrethrum
- Hides and Skins
- Copper
B. Overall Effects on World Trade

28. The Working Party covered during the six weeks of its discussions a very substantial part (over 80%) of the export trade in agricultural products of the associated overseas territories. It also covered two representative metals - aluminium and lead. This coverage is sufficient to enable certain general conclusions to be reached about the problems which the association of overseas countries and territories with the Community raises for the trade of other contracting parties. Such conclusions are not likely to be basically altered by the consideration of the additional commodities exported by the A.O.T.s referred to above 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.

29. As has been shown, the commodities likely to be principally affected by the association of overseas territories with the Community are cocoa, coffee, bananas, sugar, tobacco, tea, oilseeds, vegetable oils, timber, plywood ... The trade of third countries with the Six in these items amounted to $ million in 1956. Early in the transitional period some of this trade is likely to be diverted from the markets of the Six and a substantial part of it is in jeopardy or may be jeopardized by actions of the Six permitted under the Treaty of Rome.

30. These 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 cover a substantial area lying in the tropical belt. Many other countries in that belt, unlike some of the A.O.T.s, 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 income) is, therefore, more dependent on these particular tropical items than are most of the A.O.T.s. The full details are given in the Statistical Appendix to this report. It will be seen that certain countries are very heavily dependent on their exports of one or two of the commodities; for example, Ghana in respect of cocoa. Other countries rely largely for their export trade on a number of commodities in each of which some part of their trade is at risk. The cumulative effect for them will, therefore, be as serious as it will be for a country like Ghana. Thus the Appendix 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.

31. 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 extend 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/Nyasaland.
Portuguese East Africa and the Union of South Africa in the south. Their exports which are likely to be affected include cocoa, coffee, tobacco, oilseeds, wood, sugar and lead. These countries contain 70% of the population of this part of Africa and export 75% of its total exports, as compared with 30% of the population and 25% of the export trade in the A.O.T.s. Even within Africa south of the Sahara, 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.

32. The territories likely to be adversely affected are not confined to Africa. Further to the East Ceylon, India, Malaya, Singapore and the Philippines have serious cause for concern, while Indonesia's whole export trade is threatened since the bulk of its exports have gone to the Six in recent years.

33. There are, moreover, many countries in Central America, South America and the Caribbean for whom over 70% of their trade (and in some cases 90%) 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 the following GATT members:-

Brazil, Chile, Cuba, Dominican Republic, Haiti, Peru:

and the following other countries:-

Colombia, Costa Rica, Ecuador, Guatemala, Mexico, Venezuela.

34. There are other territories 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.

35. All these under-developed countries are dependent solely on the export to world markets of these and other primary products. It is, therefore, vital to such countries that world markets for primary products should not only be maintained, but should continue to grow and that international trade should be progressively freed from restrictions. These countries need steadily increasing national incomes to meet the ever-increasing burden of recurrent expenditure. Moreover, they have extensive development plans, in accordance with the desires of their peoples for advancement. These must be financed at least to a considerable extent by export earnings. If, therefore, the foreign trade earnings of these territories cease to grow or
still more, if they are actually reduced, living standards will fall and development plans will have to 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.

36. The Six state in the Treaty 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 laudable aim which is shared by those responsible for the well-being of all other under-developed countries. However, it has been shown that the method—the creation of a new preferential area—by which the Six are attempting to achieve their objective, is likely to affect adversely the economic, social and cultural development of other territories with living standards similar to those of the A.O.T.s and exporting similar goods.

37. The representatives of non-Six producers believe that the Six have so far seriously underestimated 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.