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

Draft report on COCOA

I. An examination of the factual position of Cocoa under the Treaty

Import duties of the Six

The legal import tariffs on cocoa for the Benelux, France and Italy were 10 per cent, 25 per cent and 5 per cent respectively (See Annex ). In the tariffs effectively applied on 1 January 1957 these rates had been suspended and imports of cocoa from both the overseas territories and third countries entered duty-free. In the case of the Federal Republic of Germany, however, the legal rate of 10 per cent has been effectively applied to imports of cocoa from all sources.

Common tariff

The level of the common external tariff for cocoa has been determined at 9 per cent and the Working Party noted that this rate would become effective in the Federal Republic of Germany at the end of the fourth year. In the case of the Benelux, France and Italy the alignment with the common tariff would be 2.7 per cent at the end of the fourth year, 5.4 per cent at the end of the second stage and 9 per cent at the end of the transitional period (See Annex ). It was recognized, nevertheless, that the possibility existed under Article 24 for an accelerated alignment of the common tariff. The representative of the Six stated that these procedures would only be invoked in exceptional circumstances. Some members concluded, however, that since there was this possibility of the 9 per cent tariff to enter into force immediately the consequential effects of such a contingency should be examined at a later stage of the discussion.

Several members wished to record that they could not accept the validity of the basis for the calculation of the external tariff at 9 per cent. They considered this rate did not reflect the average of the tariff rates applicable on 1 January 1957. While they recognized that this question was outside the mandate of the Working Party they indicated their intention to take up this question with the Intersessional Committee. The representative of the Six pointed out that the level of 9 per cent was in fact lower than the arithmetical average of the tariff rates actually, although not effectively in force. This basis of calculation was valid since the possibility existed of revoking the exemption at any time and effectively applying the legal tariff.

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The tariff for cocoa butter had not yet been determined since it was included in List G and therefore subject to subsequent negotiations between Member States. Several members pointed out that this could mean that a high rate of duty would eventually be imposed and accordingly at a later stage they would examine the possible consequences of such a high rate of duty on the trade of third countries.

The rate at which tariffs would be reduced to zero for imports from the associated territories

In the Benelux, France and Italy, imports of cocoa from the overseas territories are already being admitted duty-free. With the Federal Republic of Germany tariffs will be reduced to 7.5 per cent, 5 per cent and zero at the end of the first, second and third stages respectively (See Annex ). It was recognized, nevertheless, that the possibility existed under Article 15(2) of the Treaty for the "accelerated" reduction of the tariff in the Federal Republic of Germany. The representative of the Six pointed out that these procedures would only be invoked in exceptional circumstances. Some members concluded, however, that since there was the possibility for the preferential system to enter immediately into force they would examine the consequent effects of such a contingency at a later stage of the discussion.

Fiscal duties

It was considered relevant to ascertain what fiscal duties were in force on cocoa and cocoa products within the Community and whether it was the intention to maintain them. The representative of the Six stated that some Member States had submitted particulars of customs duties of a fiscal nature in accordance with Article 17(2) of the Treaty. This question had not yet been decided and any determination concerning the possible fiscal nature of certain customs duties applicable to the products under examination could only be made at a later date in conformity with the provisions of Articles 17, 22 and 23(2) of the Treaty.

Quota arrangements

Members referred to the discussion on this point that had taken place in Sub-Group B at the Twelfth Session. The consequences of any possible discrimination in quota arrangements is dealt with in Section III of this Report.

The position of cocoa under the agricultural provisions of the Treaty and Annex II

Several members recalled the concern they had expressed at the Twelfth Session as to the need for the Six to have included tropical products, including cocoa, in Annex II, in order to apply to them the "managed market" provisions of the Treaty. These provisions seemed to be designed essentially to apply only to the Six and it could therefore be inferred that the inclusion of cocoa and other tropical products in Annex II was with the intention of extending further non-tariff preferences to the overseas territories. The representative of the Six stated that the institutions had been given certain powers in this field; whether and to what extent these powers would be used could not yet be determined.
II. Current Trade Pattern

Members of the Working Party drew attention to the large share which cocoa beans occupy in the total export value of several countries which are suppliers to the market of the Six. The following percentages illustrate this situation:

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Further, the Working Party took note of the information furnished in the Note by the secretariat on the current pattern of trade and especially of the role of the Six and of the Associated Territories. The general picture of the trade is that the total import market of the Six in 1956 for cocoa and cocoa products was about 270,000 tons of which about 97,000 tons (36 per cent) was supplied by the Associated Territories. The other principal suppliers were Ghana, with about 71,000 tons (26 per cent), Brazil about 35,000 tons (13 per cent) and Nigeria 31,000 tons (11 per cent). The remaining 14 per cent were supplied principally by Portuguese territories, British West Indies, the Dominican Republic and Ceylon. The European Economic Community is an important outlet for the exports of cocoa of many suppliers. In 1956 Ghana sent 47 per cent of the total quantity exported to the Six and for a number of other countries, the proportion was as follows: Brazil 27 per cent, Nigeria 26, Sierra Leone 41, Trinidad 20, Grenada 27, Indonesia 93 and Ceylon 27 per cent. The Associated Territories of the Six exported in 1956 about 133,000 tons of cocoa beans, of which about 97,000 tons, or 73 per cent, to the countries of the Six.
III. The short-term and probable long-term effects of the provisions of the Treaty on patterns of trade and price levels

The elimination of tariffs on imports from the overseas territories

1. The Working Party recognized that the Association of the Overseas Territories to the Common Market would involve an element of discrimination. In the case of cocoa imports into the Community would be subject to a 9 per cent duty when imported from third countries, but would be admitted duty-free from the Associated Territories.

(1) Effects on production

2. It was noted that the present production of the Associated Overseas Territories was about a half of the actual market requirements of the Six and some members of the Working Party considered that so long as the total cocoa production of the Associated Overseas Territories fell short of the total import requirements of the Six the preference would be fully effective and the Associated Overseas Territories would generally speaking be able to sell to the Six at a premium of 9 per cent above the world market price. This would mean that the price level for cocoa beans within the Six would be 9 per cent above the level in the rest of the world. These new price levels would be established as soon as the provisions of the Treaty in relation to cocoa had been fully implemented. The representatives of the Six could not concur with this view and pointed out that experience in the past had shown that a preferential margin was never fully reflected in the remuneration of the producer. By way of illustration attention was drawn to the fact that preferences for other products had already been in force in France and in other countries, for instance the United Kingdom, and the prices of these products did not reflect a premium equal to the amount of the preference. Furthermore, the tariff provisions of the Treaty of Rome will be put into effect gradually. The production from plantings made in recent years prior to the conclusion of the Treaty is, moreover, far from sufficient to meet the Community's total needs. An additional limiting factor on the prices actually received by the producers lay in the operation of internal compensation systems in force in certain important producing territories, for example in the Commonwealth and the French territories. The intent of these schemes was to isolate price fluctuations in world markets and in determining the price to be paid to producers due account was taken of preferential margins and world market conditions. Other members, however, pointed out that over a period and on the average producers should still receive the full benefits of the enhanced prices these products would receive in the markets of the Six.

3. Some members of the Working Party held the view that as a result of the new preference the members of the Community would in future tend to turn first to the Associated Overseas Territories for their supplies, thus causing a major dislocation in traditional patterns of trade. They noted that production in the Associated Overseas Territories had risen by nearly 100 per cent during the
past decade and considered that with recent new plantings this strong upward trend would continue (more than counter-balancing any reduction due to ageing). It was inconceivable that such a steady upward trend could cease abruptly. This additional production coming forward in the next few years would accentuate the dislocation of trade arising from the new preference. The representatives of the Six pointed out that this additional production resulting from plantings made before the Treaty was drawn up could not be considered as being in response to the provisions of the Treaty itself. This view was not accepted by some members of the Working Party since the new preference arising from the Treaty would still operate in favour of this additional production.

4. Some members of the Working Party maintained that the premium of 9 per cent above the world price must eventually be largely passed on to producers in the Associated Overseas Territories. The prospect of receiving such a price increase and, even more, the assurance of a market in the Six for at least another 100,000 tons of cocoa production would (by themselves, apart from other incentives) have the immediate effect of stimulating substantially, in an artificial way, cocoa production in the Associated Overseas Territories of the Six. The representatives of the Six reaffirmed the view that the full effects of the system could not be passed on to the producer. Moreover, it did not necessarily follow that an increased price would induce producers to expand their production. Producers were more concerned with a stabilization of their income rather than any immediate price benefits that may accrue from time to time. Accordingly it would be in their interests as producers to pursue policies which would have a stabilizing influence on the world market situation for cocoa.

5. A recent report on the Ghana cocoa industry had shown that there were very substantial reserves of forest lands available for cocoa planting. Cocoa cultivation was being extended on a large scale in areas of Nigeria which had not previously been regarded as suitable for cocoa. In the light of this evidence from neighbouring countries and the rapid recent increases in cocoa production in the Associated Overseas Territories, some members of the Working Party considered that new plantings in the Associated Overseas Territories would continue for many years on a substantial basis. Moreover, great increases could be achieved from the replanting of old cocoa with new high yielding strains. While the representatives of the Six acknowledged that production in the overseas territories would increase in the future, they stressed that due to obvious physical economic and financial limitations the rate of increase could not possibly equal that attained in the past, nor could it be by far of the magnitude envisaged by some members. In this connexion they referred to the opinion of the FAO experts and publications, and to the CEPEG study on cocoa. The acreage of land suitable for the cultivation of cocoa was in fact restricted and the opening up of new outlying areas involved considerable capital outlay. A large proportion of the trees were aged and low-yielding. There was some producer resistance to the felling and replanting of old trees since it took a period of five to seven years for the trees to mature and become a paying proposition. These factors, therefore, together with plant diseases and climatic conditions, militated against any expectancy that production in the overseas territories could increase to any considerable extent in the foreseeable future.
6. Several members expressed the view that as the 9 per cent preference in itself would give a substantial return on the capital invested in new cocoa, in addition to profits already being made on cocoa (which were considerable in Africa at present prices) this would act as a strong further attraction for the investment of private capital in cocoa growing in the Associated Overseas Territories. They also considered that the $500 million Investment Fund would contribute to the construction of the necessary basic services for opening up new areas within the Associated Overseas Territories. It was inevitable, moreover, that officials would give encouragement to the further development of this financially very attractive crop. The representatives of the Six could see no justification in these apprehensions because of the fact that it is not possible to foresee the activities of the Investment Fund. Moreover, the overseas territories were aware of the vulnerability of any under-developed economy which is heavily dependent on one crop for its export income, and therefore of the necessity to undertake investment projects which would result in some diversification of production.

7. Attention was drawn to the fact that experience in Africa had amply shown already that under the right conditions, production of cocoa could be very rapidly increased and in the case of Ghana production rose from 6,000 tons to 135,000 tons in fifteen years at a time when technological resources were much less than today. The representatives of the Six, however, could not accept the example cited of the rapid increase of production in Ghana as being altogether valid since in this instance it referred to the years 1905-1920 when production started from almost zero and by definition the rate of increase would be rapid. The Associated Overseas Territories, however, have been important producers of cocoa for a considerable period of time.

8. Several members of the Working Party, however, felt that, contrary to the opinion of the Six, the conclusion was inescapable that the 9 per cent preference would greatly stimulate production in the Associated Overseas Territories. They considered that at a more conservative estimate this would lead within the next fifteen to twenty years to additional annual exports from the Associated Overseas Territories of at least 50,000 tons above what would otherwise have come forward with higher yielding strains such an increase would not involve a great increase in acreage above that already cultivated. The representatives of the Six could see no justification to these views because of the argumentation they stated above.

9. Some members noted that a further effect of the new tariff preference would be that outside producers would be reduced to the status of the residual suppliers of cocoa to the Six. The Treaty of Rome itself makes clear that one of its objectives is to lessen dependence of the Community on outside supplies. This would mean that should there be at any time a falling demand for cocoa by the Six the reduction would first fall on outside producers,
the Six continuing to provide a full market for whatever cocoa the Associated Overseas Territories produced. The representatives of the Six could not accept such views since the Treaty itself, for instance in Articles 234, 18 and 110, takes fully into account trade relations with third countries. Moreover, they pointed out that consumer preferences and technical requirements of manufacturers would tend to maintain imports from outside producers even in times of falling demand.

(ii) Effects on Consumption

10. Some members argued that the increase in the price of cocoa within the Community, as a result of the increased tariff level, accentuated by the ad valorem fiscal duties on chocolate and other cocoa products, would reduce the demand for cocoa products within the Community. The increase in the cocoa bean price level of 9 per cent in France, the Benelux and Italy (reflecting the increase from zero to £2 million per annum in net duty collection) would have to be passed on to consumers since it was a permanent increase which (unlike normal market price rises) manufacturers could not expect to recoup in times of lower prices. The representatives of the Six put forward the view that it would economically not be justified to assume that the tariff of 9 per cent would be fully reflected on the price of the finished product to the consumer and hence lead to a decrease in consumption. It has been estimated by the OEEC study on cocoa that the extent to which the cost of cocoa beans entered into the price of the finished product varied between 33 1/3 per cent and 50 per cent. In the Common Market itself the representatives of the Six considered that consumption would increase following an expected rise in the standards of living, apart from an increase of consumption in the Federal Republic of Germany as a result of the reduction of the import duty. In Italy there has been, in recent years, a rapid expansion in the consumption of chocolate products made out of admixtures of cocoa and cocoa substitutes. Other members, however, considered that an internal duty might be levied to compensate for loss of fiscal revenue in the Federal Republic of Germany and that in any case the anticipated increase in demand in the Federal Republic of Germany could hardly compensate for the fall in demand elsewhere in the Community. Furthermore, they disagreed with the representatives of the Six that consumption of cocoa products would increase in Italy since they maintained that climatic considerations weighed against an appreciable increase there. They also pointed out that countries like the United Kingdom and the United States with high living standards appeared to have reached saturation point in their per capita consumption of cocoa, that there were similar signs of a limit of consumption being reached in the Netherlands and the Federal Republic of Germany, so that rising living standards in the Community was unlikely to lead to a further increase in consumption in the Community.

(iii) Effects on the Trade of other contracting parties

11. Some members of the Working Party considered that the dislocation to existing patterns of trade which would arise from the new tariff preference would in itself (setting on one side the effect of the stimulus to production) have serious financial consequences for these countries in that existing trade connexions would be broken and outside producers would not be able to market their products in the markets which had been accustomed to use them. Such a
dislocation in existing trade patterns was in itself a legitimate cause for complaint under the GATT and the offsetting effect of such increased opportunities for selling in third markets as may arise from the withdrawal of Associated Overseas Territories' cocoa from these markets did not in itself adequately protect the interests of other producers. Producers not enjoying any preferential market, such as producers in Latin America, would suffer especially from this creation of a further preferential market. This dislocation to existing trade patterns would be markedly accentuated in the immediate future by the additional supplies of cocoa coming forward from the recent new plantings in the Associated Overseas Territories.

12. Even more important than this, however, was that the artificially stimulated production in the Six's Overseas Territories threatened other producers with the loss of a large part, and probably eventually the whole, of their existing market in the Six. This market consisted at present of some 140,000 tons worth - about £50 million per annum at current c.i.f. prices. The importance of the cocoa market of the Six to most cocoa exporting countries has already been noted (Section II). In most cases it is at least 20 per cent and in some cases as high as 40 per cent of total cocoa exports. Outside producers had no longer, moreover, any assurance of participating in any increase which may occur in the market for cocoa within the Six and those producers which had held a pre-war market in the Six would be precluded from regaining any part of that market. The representatives of the Six pointed out that any shift in cocoa exports from the present markets of the Overseas Territories to those of the Six would create additional outlets for other producers in these markets.

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

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

(b) The Six had already indicated that for the present exercise plantings made in the last few years preceding the signature of the Rome Treaty were not to be taken into account.

(c) For the reasons already stated, the long-term prospects for expanded production in the associated territories fell far short of the Community's requirements, which in any case would increase as a result of the implementation of the Treaty provisions.

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

The representatives of the Six considered, furthermore, that in accordance with the Working Party's terms of reference, any estimates on future patterns of trade should not be confined to the markets of the Six but should rather be made against the background of the future outlook on the world market. Demand for cocoa had a dynamic character since it was determined by such factors as population increase, levels of income and the price of the product itself. There was no evidence that world consumption would stagnate; indeed consumption studies by the FAO indicated that a 2 per cent per annum compound rate of increase in world consumption could be expected in future years. The fact that future prospects for cocoa were encouraging was further borne out by the intensive experimentation of cocoa substitutes at present being rigorously pursued. The view was held, therefore, that a point of saturation in consumption had certainly not been reached in all markets, if any, and that population growth, rising living standards and the recent entry of new buyers such as Eastern Europe in the market, would all militate towards continuous upward trends in consumption. Moreover, since the war the extreme sensitivity and speculative character evidenced on the world cocoa market has had far greater limiting effects on the expansion of world consumption than any repercussions that could occur from a tariff incidence of 9 per cent. Some members, however, pointed out that saturation point had already been reached in the important cocoa markets of the United Kingdom and the United States and that the 2 per cent increase in consumption calculated was based on a price which producing countries generally regarded as low and assumed substantial increases in consumption in Russia, China and other as yet small markets. Even so, additional production likely to come forward from other sources, e.g. Latin America, was likely to correspond to this increase in consumption. These members concluded, therefore, that in this evenly balanced situation further additional production in the Associated Overseas Territories, stimulated by the Treaty of Rome, would have a major depressing effect.
Non-Tariff Arrangements

(i) Quantitative Restrictions

15. The Working Party turned to examine quota arrangements. On the basis of Table I of Document IC/WPl/7 it observed that France was currently applying quotas to imports of cocoa beans from all sources except the French overseas territories; that Benelux was following a liberal import policy and that Germany and Italy had liberalized imports. On the basis of the Report of the Working Party on Balance of Payments to the Twelfth Session (L/746/Add.2), it noted that France was applying quotas under the provisions of Article XII to protect its balance-of-payments position. The Working Party recalled that at the Twelfth Session representatives of the Six claimed that "they were entitled to deviate from ... Articles XI to XIV in so far as the application of these provisions would constitute obstacles to the formation of the Customs Union and to the achievement of its objective". In particular they claimed that they were obligated "to eliminate in so far as possible - but only to that extent - quantitative restrictions existing between them, without necessarily extending such elimination to countries which are not members of the Union". They also claimed that the corollary of this obligation "implied that the Members States may maintain or impose restrictions applying to non-member countries only". They further claimed that they were required to apply "substantially the same duties and other regulations of commerce". They elaborated that the words "other regulations of commerce" included quantitative import restrictions. They added that "by implication" this rule gives them "the right to apply restrictive measures other than those they had been able to apply if the Union had not been established". They went on to say that "these additional measures may ... affect commodities which are not produced in the country or countries which take these measures, in which case they cannot be considered as 'protective' measures ...". The Working Party concluded that if the Six exercised these claims in existing circumstances they would substantially increase the margin of preference over and above the 9 per cent tariff in the following ways:

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

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

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

16. The representatives of the Six pointed out that a situation as outlined above by some members is a hypothetical one and that it was to the institutions of the Community to pursue an economic policy. They stressed the fact that the institutions are obliged by Article 234 to respect the rules of the General Agreement.
(ii) Agricultural Provisions

17. The Working Party noted that cocoa was subject to the agricultural provisions of the Treaty. The Working Party recalled that a majority of members of Sub-Group C established by the Committee on the Rome Treaty at the Twelfth Session to examine these agricultural provisions considered that they "carried a strong presumption of increased external barriers" to trade. In particular they recalled that:

(a) Regarding the minimum price system, some members of Sub-Group C believed that "it appeared to require barriers to trade ... between the Six and third countries". In addition they stated that "the provisions in paras. 1 and 2 of Article 44 taken together seem to lend themselves to the interpretation that the application of minimum prices could result in a displacement of the trade with outside countries". They observed that if there is an "increase in demand there is no assurance that outside suppliers will share in that increase, and, if there is no increase in demand, it is quite possible that imports from outside would decline". They felt that "if minimum prices are applied to trade among the Six, it could become necessary, depending on the level of prices established, to apply to imports from outside quotas ... or, if imports would be subject to minimum prices plus an external tariff, this could in effect seriously restrict and perhaps even prevent imports".

(b) Regarding long-term contracts, members of the Sub-Group believed their use "was likely to lead to additional import barriers and restraints of multilateral trade". Many members thought the increase in the volume which is provided for in Article 45 para. 2, "could take place only at the expense of supplies from other countries". In their view the provision in that paragraph that due account should be taken of traditional trade currents did not"seem to offer adequate guarantees against such a development".

(c) Regarding the provisions of para. 3 of Article 45 covering imports of raw materials for the production of goods destined for export outside the Community, members of the Sub-Group expressed "particular concern" on the grounds that they gave the institutions the power to prevent imports and "were likely to produce harmful effects for outside countries".

For these reasons, a majority of the Working Party concluded that the application of the agricultural provisions of the Treaty to cocoa production in the overseas territories would probably lead to a marked increase in the margins of preference provided by the tariff and/or the exercise of claims
to apply quantitative restrictions without regard to the provisions of Articles XI to XIV inclusive. These members considered the statement by a representative of the Six to the effect that they should not take account of the agricultural provisions because the institutions of the Community have not decided whether or how they will be applied to cocoa. However, these members decided that unless the Six assured the Working Party that the agricultural provisions would not be applied to cocoa the only realistic course was to consider their probable effects on the interest of third countries.

18. The representatives of the Six recalled that in Sub-Group C mentioned above they had stated that "minimum prices would be used only in cases where the progressive operation of customs duties and quantitative restrictions between Member States may result in prices likely to jeopardise the achievement of the objectives set out in Article 39 of the Rome Treaty". They furthermore expressed the opinion that "this operation of minimum prices to the intra-Community trade would not necessarily lead to a reduction in imports, and paragraph 2 of Article 44 was intended to take into account the interests of third countries because of its influence on the price levels". They were of the opinion that "the members of the Sub-Group did not take into account that the Community would abide by the provisions of the General Agreement". In Sub-Group C it was explained that under para. 3 of Article 45 "it was intended to promote individual countries among the Six to preserve their traditional trading interests with outside countries, and that the decision to deviate from that principle would require a unanimous vote as stated in the last sentence of that paragraph". Furthermore, members of the Sub-Group were assured that the Six would give due consideration to traditional trade currents, and assurances were given "that the long-term contracts would only be applied to a limited number of products and only until the national organizations are replaced by one of the forms of common organization provided for in the Treaty". The representatives of the Six maintained their opinion that guarantees for the trading interests of third countries are already given by the provisions of the Treaty.

19. Several members of the Working Party also considered that any serious fall in world cocoa prices, whether arising from this or other causes, would lead to strong pressure on the institutions of the Community to make use of the powers given them by the Treaty to institute quantitative restrictions or "managed market" provisions to protect the returns received by cocoa producers within the Associated Overseas Territories. This would mean that production would be kept up in the Associated Overseas Territories and the full brunt of the recession and any cutting back of production would fall wholly on other cocoa producers. The representatives of the Six considered that this viewpoint was a pessimistic and purely hypothetical one and drew attention to the provisions of the Treaty that the Community, in shaping its commercial policy, was bound to take into account the international commitments of the Member States.
Introduction of Tariff Measures

20. It was noted that under Articles 15(2) and 24 of the Treaty of Rome it was within the powers of Member States to introduce the new tariff levels and reduce the duties on imports from their Associated Overseas Territories more quickly than the normal procedure. Several members considered that this, therefore, gave the Six the power to introduce the full 9 per cent tariff preference on cocoa and the managed market provisions immediately if they so wished. The long-term effect of this action would be the same as the more gradual introduction of the 9 per cent tariff preference, but the short-term effects by causing a major disruption to the cocoa market in a short space of time would not only bring into effect earlier the long-term effects already described, but might well cause even graver disturbances to the cocoa market. The representatives of the Six agreed that the possibility of using the "accelerated" procedures did exist. They would only be resorted to, however, in exceptional cases and the Working Party should base its deliberations on this fact. Indeed if the authors of the Treaty had envisaged that the "accelerated" procedures would be the rule rather than the exception then Articles 15(2) and 24 would have been drafted in much greater detail.

Cocoa Butter, Cocoa Paste, etc.

21. Members of the Working Party drew attention to the fact that the duty on cocoa paste, cocoa butter and other cocoa products (BN. 18.03, .04, .05 and .06) remained to be fixed under the Treaty of Rome since they occurred in List G. They considered that if an appreciable high Common Market tariff were to be introduced for any of these items it would constitute a preference in them on behalf of the Associated Overseas Territories in precisely the same way as for cocoa beans. They also drew attention to the fact that, if the duty was placed at a higher level than that corresponding to the duty on cocoa beans itself, this would stimulate the manufacture of these products in the Associated Overseas Territories themselves, leading to a reorganization of the trade in cocoa products. This could have an even more serious effect on the sales of cocoa and cocoa products to the Six than the 9 per cent preference on cocoa beans itself. Although the present production of cocoa butter and other products within the Associated Overseas Territories was small, it was growing and there was no technical reason why, under a substantial preference, it could not grow very rapidly.
22. The representatives of the Six considered that the apprehensions expressed concerning trade in this product appeared to be out of proportion to its relative unimportance in world cocoa trade. In 1956 world imports of cocoa butter stood at 46,000 tons as compared with 750,000 tons of cocoa beans. It was pointed out that compared with world production, African countries produced 60 per cent of cocoa beans and 11 per cent of cocoa butter. On the other hand, technical and economic conditions do not warrant a substantial increase in the production of cocoa products in Africa. Moreover, the Six were net exporters of this product. Other members, however, pointed out that cocoa butter factories did not exist in the tropics.

Conclusion

A. Short-term Effects

23. Several members of the Working Party accordingly concluded that in the short-term (up to four years) the principal effects would be the beginning of the disturbing of existing trade patterns and the encouragement to production in the Associated Overseas Territories. The latter effect in itself was immediate and serious since the harm done by excessive planting could not be readily undone in the future. The Six could, however, also cause most damaging effects to the trade of third countries in the short-term by taking full advantage of certain provisions of the Treaty permitting the immediate introduction of tariff or non-tariff preferences. All these short-term effects would be accentuated by the additional supplies of cocoa which must come forward during the next few years from existing new planting in the Associated Overseas Territories.

24. The representatives of the Six could not concur with these conclusions and stated in accordance with FAO Bulletin 29 that in view of the gradual implementation of the tariff measures in the short-term (up to four years) the repercussions of the Treaty would be inconsiderable or zero. Any increase in production that did in fact take place in the short-term could not be regarded as being in response to the provisions of the Treaty but rather as due to plantings made in previous years.

B. Long-term Effects

25. The representatives of the Six pointed out that it was recognized at Havana that the formation of a free-trade area would have certain consequential effects on existing patterns of trade. These effects would have to be evaluated, however, against the background of the increased standards of living and higher levels of demand that would flow from the establishment of the free-trade area. Other members, however, drew attention to the fact that rising living standards did not necessarily lead to an increase in per capita cocoa consumption and that there were indications that the demand for cocoa in certain Member States was already not far from saturation point.

26. The representatives of the Six concluded that the incidence of the 9 per cent tariff would not be fully reflected on the prices paid by the consumer or the remuneration to producers and any stimulus to production that did result therefrom would have many physical and other limitations.
Furthermore, there were many factors such as population increase and increased standards of living which militated towards a steady growth in world consumption of cocoa and cocoa products. Having regard to the possibilities of production in the Associated Overseas Territories, the representatives of the Six were of the opinion that in the future the Community would remain an expanding market for cocoa beans originating from third countries, as the expected increase in standards of living warranted corresponding expectations for higher consumption levels.

27. Several members of the Working Party concluded that in the long-term (fifteen to twenty years) the Association of Overseas Territories with the Community would undoubtedly have very serious adverse effects on the cocoa trade of other contracting parties, not only with regard to their trade with the Six but also on world trade as a whole, dislocating traditional trade patterns, reducing and even eliminating access to traditional markets and gravely depressing world prices. These effects would be aggravated if a substantial duty was introduced under List G for cocoa butter and other cocoa products. The result would be a loss of traditional markets in the Six by outside producers worth £40 million per annum at present and an overall loss through reduced prices of £60 million per annum, or even more.

28. The non-tariff preferences which could be introduced under the Treaty through quantitative restrictions, minimum prices and other provisions of Part Two Annex II could, if applied to cocoa at any time, multiply the adverse effects on the trade of third countries and the world cocoa market as a whole. The preferences were most likely to be introduced and would be most damaging in their effects when introduced, at a time of general recession in cocoa prices - a recession which the Treaty itself was most likely to bring about.