The consultation on coffee, which was held at the request of the Government of the United Kingdom, was held in Geneva on 13 and 18 November 1958. The following countries took part in the consultation:

The United Kingdom (country requesting the holding of the consultation)

Brazil, Haiti, Indonesia, the Dominican Republic (countries requesting to participate in the consultation)

A representative of Portugal attended the meetings as an observer.

The European Economic Community was represented by delegates of the Member States and of the Community institutions.

At the outset, the Head of the German delegation, acting as spokesman for the Six, referred to the framework within which the consultation was to take place. In particular, he made it clear that under the procedure agreed upon by the Intersessional Committee and accepted by the Six in the letter addressed to the Chairman of the Contracting Parties by the President of the Council of Members of the European Economic Community, the consultations were to deal with specific cases arising out of the application of the Rome Treaty. He also recalled the statements made during the meetings on the cocoa market concerning the development and scope of the consultation.

He added that the Member States of the European Economic Community were no less interested than third countries requesting the consultation in the stabilization of primary commodities and were aware of the special importance of the coffee trade for countries in the process of development.

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He stressed that three types of consideration considerably limited the weight of the arguments put forward by certain third producing countries concerning the actual prejudice which might result for coffee production from the Association of overseas territories with the Community.

These considerations were as follows:

1. The very small extent of the tariff preference in favour of coffee from the AOT's during the first stage of the application of the Rome Treaty.

2. The importance of the growth of coffee consumption in the metropolitan territories of the Six as compared with the expansion of production in the AOT's.

3. The fact that at present the most serious threat seemed to come from the glut in the coffee market, which it was feared might continue for many years, and which could in no way be attributable to the establishment of the Common Market.

During the exchange of views which followed, the delegates dealt with the following questions:

- proof of the existence of specific damage;
- the problem of quotas and tariff protection;
- the problem of over-production and stabilization.

1. PROOF OF THE EXISTENCE OF SPECIFIC DAMAGE

The United Kingdom representative stated that the study carried out by the FAO as well as the Haberler Report confirmed the contention that exports from third countries would be adversely affected as a result of the establishment of a common external tariff of 16 per cent on coffee while imports from the AOT's will be admitted duty-free. In his opinion it would be a mistake to wait for damage to materialize or threaten before taking the necessary steps.

The representative of the United Kingdom, supported by the representative of the Dominican Republic, pointed out that the Intersessional Committee, in the procedure it had suggested, had not mentioned the question of specific cases and that this term had been introduced by the Six at a later stage.

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These considerations are set out in detail in a note circulated by the French delegation, and annexed to this Summary Record.
The spokesman for the Six stressed once again that actual or imminent damage did not come within the framework of the consultations. He recalled the conditions under which the Council of Ministers had agreed to consultations being held and stressed that it was in a spirit of compromise that the Six had agreed to hold consultations before the submission of specific cases by the requesting countries. They had nevertheless made a reservation to the effect that they would request the other side to refer to specific cases at the outset of the consultations.

2. THE PROBLEM OF QUOTAS AND TARIFF PROTECTION

The third countries participating in the consultations felt that, generally speaking, internal fiscal taxes on coffee were likely to hamper the growth of consumption.

The United Kingdom representative asked whether the special duty in Germany was to be raised to 26 per cent, effective 1 January 1959 and wished to know the scope of the Bill adopted by the Federal Republic of Germany.

The German representative stated that the Bill did in fact provide for a reduction in the duty rate on raw coffee from 1.6 to 1 German marks per kilogramme. This would be effective from 1 January 1959, but in order to compensate for this reduction, the internal tax would be raised from 3 to 3.6 German marks per kilogramme. This was in accordance with paragraph 3 of Article 17 of the Rome Treaty. He asked the countries requesting the information to note that the method of compensating a tariff reduction by a consumer tax on coffee from all sources would tend to favour third countries.

The United Kingdom delegate replied that it was by no means certain that this situation would benefit the trade of third countries, and feared that in any case exports of coffee from Uganda to Italy might decrease in favour of AOT coffee.

The spokesman for the Six stressed that the very low tariff rate applicable during the first stage was hardly likely to create a diversion of trade to the detriment of third producing countries. Furthermore, the existence of high taxes in Italy would further limit the effects of preference. He also pointed out that, insofar as Germany was concerned, where consumer tastes are practically confined to higher grades, the possibility of a diversion of trade was not to be envisaged. Insofar as France was concerned, he pointed out that coffee came under the quota system and that the effects of preferential tariffs would only be felt to the extent that quotas were granted.

The Six then requested the United Kingdom representative to give in writing details of the trade between Uganda and Italy in "robusta" coffee.
The third countries taking part in the consultations also stated that they wished to have a written statement as to the duties to be applied from 1 January 1959 on coffee from the third countries as well as on coffee from the AOT's. These figures should include taxes of a fiscal nature.

In reply to a question on this subject from the representative of India it was stated that the preferential coffee tariff rate applicable during the first stage of the Treaty would be 1 per cent in Italy, 2 per cent in France and 0 per cent in the Benelux countries and the Federal Republic of Germany, subject in the latter case to the approval of Parliament.

3. THE PROBLEM OF OVER-PRODUCTION AND STABILIZATION

The third countries requesting the consultation argued that the effect of the external tariff would be to stimulate coffee production in the AOT's. They noted that this production, which was now fifteen times greater than it was twenty years ago, exceeded the requirements of the metropolitan territories and thus obliged producers to seek outlets in other markets. They were convinced that, if producers in the AOT's could count on assured preferential markets for their production, they would extend the area under cultivation. The fact that production in the AOT's might also benefit from non-tariff protection within the framework of the general agricultural provisions of the Rome Treaty caused them much greater concern still.

In this respect the United Kingdom representative, supported by other representatives of producing countries, asked the Six to give the formal assurance that the provisions of the Treaty that caused them greater concern still than tariff protection would not be applied to the AOT's.

The representative of Brazil wondered how the Six could possibly support international measures directed to the stabilization of coffee prices, while at the same time encouraging coffee production in the AOT's.

The United Kingdom representative stated that, in his opinion, the problems raised by the establishment of the Community were to be solved first and only at a later date would it be possible to seek, with any chance of success, an international solution aiming at stabilization.

The representative of Belgium agreed that the one real and urgent problem at present was that of over-production, but felt that his country's policy in her overseas territories was in no way to be blamed since this policy aimed at a rational increase in coffee production within the framework of a wider policy governed mainly by the desire to satisfy local requirements and to increase the purchasing power of the native populations. He pointed out that this policy had been drawn up and applied long before the Common Market had been even conceived. In any case, the relatively low production
and export figures of the Belgian Congo and Ruanda Urundi district were such that no short-term solution they could contribute would have any bearing on the present situation. He nevertheless pledged his country's collaboration in any attempt to find a long-term solution through the Study Group in Washington, and added that, according to current estimates, exports for the 1958-59 season were unlikely to exceed those of the previous year.

The spokesman for the Six further pointed out that it was not to be inferred from the fact that production in the AOT's had become fifteen times greater in recent years that the production capacity of these countries had reached a maximum, and that further development would encounter proportionately greater difficulties. He pointed out that, in any case, on account of the economic crisis, there was no inducement for producers to increase production.

At the end of the discussion, the spokesman for the Six suggested that the delegations should report to their governments on the progress of work. He stated that the Member countries of the European Economic Community were prepared to renew contact with the countries requesting the consultation, if the latter so wished. He recalled that the Six considered the talks that had just taken place as the commencement of a series of consultations and as the expression of a desire for what they hoped would be a fruitful cooperation with the third countries concerned.

On the other hand the representatives of the third countries expressed disappointment at the results of the initial consultation, but nevertheless felt that discussions could be pursued at a later date in the light of new developments.

It was envisaged that the next round of discussions could be held during the latter half of February.
CONSULTATION ON COFFEE

NOTE BY THE FRENCH DELEGATION

Three types of considerations considerably limit the weight of arguments put forward by certain third producing countries concerning the actual prejudice which might result for coffee production from the association of overseas territories with the Community.

1. The very small extent of the tariff preference in favour of coffee from the AOT's during the first stage of the application of the Rome Treaty.

2. The importance of the growth of coffee consumption in the metropolitan territories of the Six as compared with the expansion of production in the AOT's.

3. The seriousness of the over-production crisis at present affecting the coffee market, and which it is feared may continue for very many years.

I. THE SMALL EXTENT OF THE TARIFF PREFERENCE

1. The first measures of tariff dismantlement between Member States of the European Economic Community are due to come into effect on 1 January 1959. If one recognizes that the specific rates at present levied both in the Federal Republic of Germany and in Italy correspond to ad valorem duties of roughly 26 per cent and 10.4 per cent respectively, the rate of customs preference accorded to coffee producers in the associated territories following the 10 per cent reduction of duty between Member States, would be as follows: 2.6 per cent in Germany, 2 per cent in France, approximately 1 per cent in Italy, and 0 per cent in the Benelux countries whose external tariff is, and will remain, equal to zero. However, the Federal Republic of Germany is considering applying the future external tariff of 16 per cent, effective 1 January 1959 and a Bill to this effect is now before Parliament. Such a measure could obviously remove any preference for coffee from the overseas territories until the second stage of application of the Treaty were reached.

2. If one considers, on the one hand, the high fiscal taxes on coffee entering French, and especially Italian and German customs territories, and, on the other hand, if one considers the very marked drop in coffee prices since the beginning of 1958, these already extremely moderate preference rates appear lower still in comparison with the price of the goods after customs duties have been paid. Under present conditions they would amount
very approximately, to 1.4 per cent in France, 0.4 per cent in Italy and 1.2 per cent in the Federal Republic of Germany. It would be difficult to argue that such a low rate of customs preference will result in any modification of existing trade flows or will win European consumers away from arabica, which they usually favour, to the robusta varieties produced in most of the associated territories.

3. At the end of the first stage, i.e., in principle by 1 January 1962, reduction of duties between Member States would be 25 per cent. On the same date, each of the countries concerned will be required to reduce the gap between the former tariff and the common external tariff by 30 per cent which amounts to 16 per cent in the case of coffee. As has been mentioned, the preference accorded to coffee from the associated territories will not, in the final count, have increased to any great extent. Apart from Germany, the relevant figures will be 4.8 per cent for the Benelux countries, 3.6 per cent for France and 5 per cent for Italy. As has already been stated, the effective preference for these types of coffee will, in any case, be very much lower on account of the considerable part played by fiscal taxes.

Further, tariff quotas accorded to Italy - i.e., 167,400 tons representing the volume of Italian imports from third countries during 1956 — as well as to the Benelux countries — i.e., 85 per cent of the import volume for the last year for which statistics are available — will greatly reduce the effects of the customs protection accorded to coffee from the associated territories in the above mentioned countries.

II. THE GROWTH OF COFFEE CONSUMPTION IN THE METROPOLITAN TERRITORIES OF THE SIX

1. According to a recent report by the International Bank for Reconstruction and Development, the annual rate of increase in consumption ranges from 2 to 3 per cent in the case of world consumption and amounts to 4.5 per cent for Western Europe. In spite of the importance of fiscal taxes, it would appear even higher in the Member States of the EEC if the figures for the last few years are taken as a basis. Per capita consumption, which exceeds 7 kgs. per year in the United States, varies between 1.4 kgs., in the case of Italy and 5.5 kgs., in the case of Belgium in the Six countries of the European Community. The European customs union which is to raise living standards and eliminate price differences, will undoubtedly permit consumption in the various Member States to reach in a uniform manner the highest level obtaining in any of the Six countries.

2. Contrary to frequent assumptions, the provisions of the Rome Treaty are in no way likely to cause a rise in the price of coffee in the Community which would lead to a slowing down in the rate of consumption increases. During the transition period, customs duties affecting, in fact, a very small volume of goods on account of the existence of the tariff quota will be introduced progressively in the Benelux countries, with, on the contrary, a reduction of
similar duties in France. Whether tariffs are to be reduced as in the case of the Federal Republic of Germany, or raised, as in the case of Italy, where a tariff quota will also be established, the impact of such modifications upon retail prices will be very slight on account of their negligible importance as compared with taxes of a fiscal nature. At the end of the transitional period, the principle of the free movement of goods will certainly result in a levelling of the tax rates in the various Member States of the Community. This levelling process will, very probably, in so far as coffee is concerned, lead to a drop in retail prices.

3. It has also been stated in document L/805/Add.2 dated 9 April 1958 that the privileges accorded to production from the associated territories are most unlikely to result in any substantial stimulus to those territories, mainly because of the extensive character of native plantations with a generally poor yield. In this respect it is particularly significant that despite the considerable privileges to be accorded to them in the French market, production in the two main producing countries, namely the Ivory Coast and Madagascar, has remained stagnant for some years, thus making it necessary, in 1957 to import robusta from Indonesia in order to ensure a regular supply.

4. Under these circumstances, it would appear that consumption in the Member States of the EEC is developing much faster than production in the associated territories. If these territories, which mainly produce robusta coffee, may possibly secure a larger share of the Community Market, it is unlikely that this will be to the detriment of third countries, which at least in so far as producers of Arabica coffee are concerned, will also enjoy larger outlets within the Community.

5. In the particular case of France, which is the only country of the Six where imports of foreign coffee are still subject to a licensing system, the establishment of a quota which in the first instance will probably be reserved for coffee from the associated territories, but which, subsequently, will obviously be extended until complete freedom of movement within the Community has been achieved, a considerable expansion of the market to the advantage of the third countries may be expected. It is interesting to note the opinion in this connexion contained in the FAO Bulletin and stating that: "The possible larger European demand for French African robustas may relieve France of the necessity of taking the overwhelming share of its Colonial production; combined with the reduction in the import duty on foreign coffees from 20 to 16 per cent, it may result in an improvement in the overall quality of French imports."

6. It should finally be noted that promotional campaigns to be undertaken in the European market as a result of the establishment of the International Coffee Organization in Rio de Janeiro might well bring about an even more rapid growth of consumption in the Community. The African producing territories immediately wished to participate in the efforts of the Latin American countries in this field.
III. THE OVER-PRODUCTION CRISIS

1. The most important question is the extension of the crisis in the coffee market which is causing very great concern in international circles and for which a solution is being sought by the Study Group established in Washington last June. It is the certainty of sufficiently remunerative prices rather than a slight tariff preference in certain markets that will encourage producers in overseas territories to increase their yield. At the current juncture, the serious crisis threatening the market as a result of sudden over-production in Brazil, where the State of Panama alone, whose coffee production was negligible a few years ago, now produces more than the whole of Africa and three times as much as the associated territories, is not likely to encourage planters, despite any advantages they may hope to reap from the establishment of the EEC.

2. The French overseas countries and territories have shown their primary consideration to be the stability of prices, and they have participated in the efforts made by the Latin American countries through the Mexican Pact of 1957 and, subsequently, through the more recent Washington agreements, to maintain the stability by withholding a part of their exportable production. In spite of the effects which this system of export quotas may have on future production, the above-mentioned countries and territories concerned have also agreed to limit exports to foreign countries for the 1958-59 season irrespective of whether or not they participate in the European Economic Community.

3. Negotiations for the conclusion of a long-term international agreement between producers and consumers will be resumed in Washington at the beginning of 1959. Such an agreement would be the sole means of restoring a balance between supply and demand that would ensure a decent standard of living for producers. The future of the coffee market will thus depend, in the final count, upon the results of the work of the International Study Group in Washington.

In conclusion, the tariff preference to be accorded to production from associated territories seems hardly likely to entail a diversion of trade which would adversely affect third countries, as any such diversion would imply considerable changes in the deep-rooted consumers' preference in favour of high quality coffee.

In the second place it seems certain that the outlets afforded to third countries will, far from shrinking, undergo a process of expansion during future years, as a result of the considerable increase in consumption in the Six. This will favour specially countries producing higher grades of coffee, very small supplies of which will be imported from the AOT's.
Finally, as far as the future is concerned, the present crisis which has been affecting the coffee market for several months, and which will probably continue for many more years despite forecasts of increased world consumption, may well cause a large number of producers to give up coffee growing. Even by the end of the 1958-59 coffee year unsold stocks of coffee will probably be equivalent to a whole year's consumption. The balance between supply and demand must thus be restored, either by the interplay of the market factors and a prolonged slump in prices, as certain countries seem to advocate, or else by means of an international agreement regulating exports by means of a strict quota system which would certainly be preferable for producers. Either solution will inevitably entail a reduction in production for all producing countries, as well as for countries which had expanded their production, with the guarantee of assured outlets, and which do not thus share responsibility for the present crisis.

In the light of these various considerations the importance of the tariff preference to be accorded to coffee from the associated territories, which, at the present stage, seems hardly likely to stimulate production, will no doubt appear as of very minor importance.