GATT FELLOWSHIP PROGRAMME

Seventh Study Trip - June 1959

To conclude the training programme of the seventh group of fellows, the GATT secretariat arranged for a study trip for the four UNTAA Fellows from Ghana, India, Poland and the Federation of Rhodesia and Nyasaland, from 31 May to 12 June. The UNTAA Fellows visited Germany, the United Kingdom and Austria.

The main subjects of the study tour were: export promotion, methods for marketing national and imported raw materials, and the Hamburg free port arrangements.

Hereunder is a breakdown of the subjects covered and places of study:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Promotion</td>
<td>Federal Republic of Germany</td>
</tr>
<tr>
<td></td>
<td>United Kingdom</td>
</tr>
<tr>
<td></td>
<td>Austria</td>
</tr>
<tr>
<td>Free Ports</td>
<td>Federal Republic of Germany</td>
</tr>
<tr>
<td>British Governments</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Colonial Policies</td>
<td></td>
</tr>
<tr>
<td>Marketing of Primary Products:</td>
<td></td>
</tr>
<tr>
<td>Tobacco</td>
<td>Federal Republic of Germany</td>
</tr>
<tr>
<td></td>
<td>The Austrian Tobacco Monopoly</td>
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<tr>
<td>Cocoa</td>
<td>The London Cocoa Market</td>
</tr>
<tr>
<td>Metals</td>
<td>The London Metal Exchange</td>
</tr>
<tr>
<td>Usefulness of Labour-Intensive production</td>
<td>Federal Republic of Germany</td>
</tr>
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The discussion was more or less limited to what may be briefly described as Governmental efforts in two classical types of Export Promotion, viz. (i) Information Services, and (ii) through Publicity.

**Information**

The following information was provided by the spokesman in introducing the subject and, in particular, describing the activities of the German Foreign Trade Information Office in Cologne.

Only the largest firms in Germany as elsewhere are able to maintain a special division for market research abroad. The German Foreign Trade Information Office in Cologne (BfA - Bundesstelle für Aussonhandels-information) therefore collects and spreads suitable information in order to make transparent the markets abroad for the great number of medium and small-sized exporting firms.

In this office there are several special divisions for treating the different themes of foreign trade information:

- General economics
- Market information and market research
- Import and Export regulations
- Customs duties and tariffs
- Commercial law, especially:
  - Right of establishing subsidiaries
  - Contacting foreign firms
  - Tenders and international subscriptions
- International fairs and exhibitions
- Publicity in foreign countries

The motto of the BfA is: Information by means of publication. Thus, a great number of periodicals and special reports is edited, partially by teamwork between the special divisions of this office.

In addition to the above, it was revealed that the efforts made in this field by other governments or government-sponsored organizations were more or less on the same lines as in the Federal Government. In particular, all the European countries have co-operated among themselves in this field. It was observed that the Japanese Expert Trade Research Organization, while doing very useful work, has not yet shown any anxiety in sharing information with others.
Out of the twelve types of publications published by the office, at regular intervals, ranging from a daily paper to certain special reports coming out at ad hoc intervals, much use is known to be made by businessmen of the daily paper - Foreign Trade Information. In fact, the paper is well arranged and is printed on only one page, so that cuttings could easily be taken and kept on a separate file by the business firms, depending on its particular interest.

The office has to be always alert as it has to compete with one or two commercial enterprises, working more or less in the same field. The Government office has no doubt a natural advantage in relying on services rendered by the consular, diplomatic and trade attachés working throughout the world, in addition to getting "news" from agencies. Evaluation of foreign newspapers is carried on on a systematic basis in the "World Economic Archives" situated in Hamburg. The office has a teleprinter service, which avoids delay in transit. They have also appointed special correspondents in very important places like London and Washington, whose duties are to fill up gaps, if any, in the information received through ordinary sources.

The Federal Government's representative said that his office has now been receiving many requests on the following matters:

(i) for making travel arrangements for visits proposed to be undertaken by both German businessmen in foreign markets and by foreign visitors to Germany;

(ii) partnership questions; in particular the representative felt that his office has been able to influence certain banking organizations to take an interest in a prospective trade or investment opening. This service, although not fully within the field of activity of the office, is gradually getting recognition among small and medium-sized firms.

In the "complaints" field also, the office has been active. It should, however, be recognized that by law, this office cannot interfere but it can nevertheless influence the German party, in particular to take a reasonable line, if it felt that the German business has to adopt a flexible attitude. This field is so wide that it cannot be said that the office has been successful in dealing with them more effectively than say, the Chambers of Commerce, trade attachés, etc. The legal interpretation of a contract is not their job.

Likewise, obtaining status reports is not their main job. But they have, however, information on firms both at home and abroad, on hundreds of thousands of firms. In giving information, particular care is taken not to
take responsibility for "status" as the office feels that this is the main job of the exporter and his bank. If the latter feels that more information is required, they have to approach the specialized agencies in this field.

The publication need not be self-financing, as the office gets a vote in grant for its establishment, etc. The office is subject to Parliamentary control as any other department of the Ministry, and if any questions are raised they are dealt with in accordance with the normal procedures. This gives them a little leeway in planning, as they need not strictly work like business houses, mostly relying on advertisements for their finances. In fact, the office takes care not to "publicize" particular firms.

Publicity

The Federal Government of Germany participates in a great number of international fairs and exhibitions by erecting official pavilions or stands for exhibiting German goods. In several cases, the BfA too sends experts to these stands to give information on German goods and firms and the praxis of foreign trade with Germany. Thus, at the international fairs (Lyon, Brünn, Poznan, Casablanca, and Chicago) there will be an expert of the BfA.

United Kingdom

The Export Services Branch of the Board of Trade is responsible for collecting and disseminating intelligence data concerning overseas markets. This Branch also has to be constantly putting out information about the opportunities and methods of exporting British products. This Branch collects, in a systematic manner, catalogues and samples and directories from foreign countries. It keeps up to date lists of importers of particular commodities throughout the world. These lists are supplied on request to all prospective exporters or their agents. The chief function of the Export Service Branch is to help such exporters in finding overseas agents. This function is performed through the Trade Commissioners in the Commonwealth countries and through the Commercial Departments in the British embassies and consulates situated throughout the world.

In the discussion held with the officials working in this Branch, the following points emerged:

(a) The British Government have hardly any legal power to force an exporter to sell to a particular market at a particular price. The only exception is the operation of strategic controls. Because of this, insofar as British goods are concerned, even a bilateral trade agreement can only be of a permissive nature.
(b) The services of the Export Services Branch have not been utilized widely by "big firms" who can afford to have market research contacts in foreign countries through their own resources. Similarly, "small firms" do not find this Branch useful. The bulk of enquiries come from "medium-sized" firms.

(c) Broadly speaking, there are four divisions dealing with "export promotion":

(i) Export Services Branch (which was visited by the UNTAA Fellows).

(ii) Commercial Relations and Exports Department. (This department is concerned with individual countries and business related to them. GATT, OEEC, European Economic Community matters are also their concern.)

(iii) Export Publicity and Fairs Branch.

(iv) Export Credits Guarantee Department.

There is close liaison between the departments. For example, periodical reports submitted by the Trade Commissioner Service, are received by all the above departments for necessary action, in accordance with the subject dealt with.

The Export Services Branch, has no policy-making power and is an executive authority. It has besides the Head Office in London, nine regional offices throughout Britain. More than one hundred executive officers are always on tour and visit firms at their invitation and submit regular reports to the Head Office. The type of work expected to be performed by this Branch, is to give exact information to the prospective exporter. No duplication occurs in their functions with the Chambers of Commerce. Instructions are issued from time to time to the Foreign Service offices, as to the method and the plan that should be followed by them in their reporting.

The main function of the Branch has turned out to be in the locating of reliable overseas agents for the prospective exporters. It is not the function of this Branch to furnish "status reports" about the financial condition of a foreign firm, as this could and should be obtained through the normal banking and other institutions. The "agent-finding" job is therefore confined to the commercial and trading experience of the firm concerned. Extreme care is taken to avoid giving adverse reports in writing, as this may lead to legal complications. The Branch has information on thousands of overseas firms, which have been collected with particular patience and care, over a number of years.
Besides furnishing individual replies to about a thousand letters a day, a regular "information service" has been introduced. This "special register information service" is available to all United Kingdom exporters, on an annual subscription of £2.10.0; reliable and up to date reports upon commercial and economic conditions in countries abroad and surveys of the markets overseas for the particular goods which interest the exporter, are sent regularly to the subscriber. The reports can be broadly classified as follows:

(i) Trade openings:
   (a) tenders called for by governments, etc;
   (b) public utility works, etc.

(ii) Enquiries from buyers and agents.

(iii) General economic reports.

(iv) Markets for particular commodities, including:
   (a) size of the overseas market;
   (b) quality of goods normally sold;
   (c) strength and source of competition together with prices;
   (d) credit terms, etc.

The service mentioned above is supplementary to the wide variety of information published every week in the Board of Trade Journal. Detailed information on overseas customs duties, tariffs and import regulations is available and is furnished upon request.

Servicing overseas visitors and arranging visits for British exporters in overseas markets, form an important part of their function.

Although not directly concerned with trade complaints, it is their experience that in minor technical matters where mistakes might have occurred at the exporters' end, persuasive arguments result in remarkable results.

Austria

A particular - and very interesting - type of export promotion may be studied in Vienna at the office of the Austrian Chamber of Commerce (Bundeskammer der Gewerblichen Wirtschaft). This Chamber (which, it should be mentioned, is an official institution) administers a system of quality marks to give producers an incentive to put only products of the best quality on the market. The system chosen applies to all products not only to those
exported, but is obviously intended to lead to a higher esteem of the quality of Austrian products in the countries to which they are exported. Since the quality marks which can be appended to the products contain mainly the word "AUSTRIA", such products are very often considered by the importing countries as bearing a satisfactory mark of origin.

The system by which these quality labels are granted functions as follows:

Existing official or semi-official scientific institutes or laboratories are invited to take care of a certain group of products falling within their dominion. From that moment on, such products can be presented to the institute and will get the basic quality mark if they fulfil certain minimum conditions. For example, it was mentioned that electric bulbs must stand a certain number of shakings without breaking to get such a mark. Products which, in addition to this minimum requirement, are presented in a particularly attractive or practical form may receive a higher type of the quality label, which is clearly distinguishable from the basic type.

Once a producer in a particular manufacturing group has been convinced of the advantage of being allowed to attach such a label to his products, many competitors automatically follow suit. The advantage of this system lies in the permanent attempt of the producers to increase the quality of their products under the guidance of the scientific institute dealing with the problem and made available for that purpose. In order to ensure that these efforts are not concentrated only at the time at which the request for the label is put forward and that the quality is maintained and even improved so as to take into account recent developments in the sphere of the particular product, the permission to use such a label must be sought yearly.

The expenses involved in granting such quality labels are not financed by the State or the Chamber of Commerce. These costs are financed by a nominal fee to be paid to the Chamber of Commerce at the time the request for the label is made, and the payment to the Institution of the cost of the scientific examination.

FREE PORTS

Hamburg Free Harbour

On the morning of Tuesday, 2 June 1959, the UNTAA Fellows visited the Free Port of Hamburg where they were able to study the operations of a modern free port and the advantages offered by such an institution. The Hamburg Free Port consists of that area of the Hamburg Port which has been labelled the "free zone". This free zone comprises many of the Hamburg harbour warehouses and large industrial establishments such as the dry dock, two floating docks and petrol refinery.
The Hamburg Free Port was established by an Act of Parliament on 15 October 1888. Today it performs the following functions:

(i) **Sea Transit** - The Fellows were able to visit a transit shed within the free port zone where small shipments of export goods from the European continent are unloaded and re-grouped in larger lots, ready for shipment, according to the foreign territories for which they are destined. It was pointed out that the existence of such a transit shed in the free port area made it possible to transship foreign goods coming from, e.g. the Baltic Sea and going to overseas countries, without having to cross the German customs boundary. Similar installations exist for goods imported from overseas countries to the European continent.

(ii) **Imports and Exports** - As the free port is considered to be outside the German customs territory, duties become payable only when goods are imported into the German customs territory. In many cases goods are imported into the German customs territory only after sorting, sampling and storing. It is to be noted that in the free harbour the discharging at the quays and the storing of the goods in the transit sheds takes place without any customs supervision. During decades, certain centres were established in the free harbour for the various types of goods. In this connexion, the Fellows were given an opportunity to visit the wine warehouse where there were facilities for mixing different types of wine and for cleaning wine. The importer can store goods at the free port until they are sold, often in small quantities. Duty is only payable when the goods cross the boundary of the free port. The advantages offered by the free port in this instance consist in the accelerated despatch of vessels, duty-free cargo handling and storage, and in the avoidance of payment of large amounts of duty, which payments are a great financial burden even on well-founded firms. The free port offers hardly any advantages to exporters, duty on exports being very rare.

(iii) **Stocks on Consignment** - The Hamburg Free Port enables German importers or foreign exporters to keep stocks on consignment outside the German customs area. The goods may then be sold to customers either in Germany or in neighbouring European countries. In both cases a minimum of customs formalities is involved. The advantage of having the goods at hand, ready for inspection by the prospective buyer and ready for delivery, considerably improve the chances for new business activity. This procedure also facilitates the procedures connected with the refund of internal charges provided for export goods.
Free Port Industries - The activities of the free port industries in principle correspond to an intermediate stage of sea transit, and raw materials are obtained from foreign countries converted into semi and finished articles and re-exported. A supply to the home market is generally cut of the question, as the duties which have to be paid for finished products are much higher than those due at the importation of raw materials into Germany (which are usually duty-free). Many products, such as chemicals, drugs and other pharmaceutical products, petroleum products, fruit juices, varnish and paints, oil cake and food items are manufactured within the free harbour and exported to all foreign countries.

British Government's Colonial Economic Policies

The British Government is responsible for governing about forty different colonies and territories but, in the field of economic development, the initiative rests with the colonial governments themselves although a broad framework of major objectives is provided by the Colonial Office. There are also some debates in Parliament at a time when Colonial Development and Welfare Bills are passed into acts. Such debates have been a feature of the British Government's policy since 1940.

Most of the colonies are under-developed but with detailed variations between their economic structure and living standards. With the exception of Hong Kong, all the territories rely mostly on agriculture or mining, or on the export of one or two major commodities.

Hong Kong is industrially developing at a fast rate and has all the marks of a relatively advanced economy. It may be said that by its location and attraction for private investment, Hong Kong does not heavily rely on the Colonial Office or governmental capital for its development. In short, it is a self-financing self-generating economy. The only major difficulty is the influx of refugees from mainland China. There are territories that are, though under-developed, not having enough cultivatable land. In Barbados and Mauritius, every square yard of land is intensively used. Some of the territories in the West Indies are relatively better off than their African neighbours.

It is true to say that after the war there is intense desire in all the territories for rapid economic development, but the chief problem is "finance". The other problems in some areas are lack of availability of labour, both skilled and unskilled. In the peasant-agriculture field, the problem is one of education in modern techniques of use fertilizers and methods of marketing. Co-operation in marketing is gradually developing. Transport comes high in the priority list and Nigeria is an example of development in the economic field.
taking place very rapidly after railway communications were developed. After
this, encouragement of manufacture of simple products is also given. Many
attractive schemes are in operation for wooing foreign capital, through
tax concessions, writing off capital, freedom to remit profits back, etc.

In some territories, however, in spite of all tax concession schemes,
governments themselves have to take a large hand and have set up industrial
development corporations. Normally the industries developed are in the field
of textiles, cement and some mining. Industrial estates have been formed
and are working satisfactorily in Singapore, Nigeria and Jamaica. There are,
of course, many difficulties in manufacturing schemes such as lack of skilled
labour and the non-availability of a proper local market. Except for Hong Kong
other territories have not developed to such a degree as to compete in the
export trade of manufactured products.

Financing for implementation of development programmes is done in various
ways. Some territories rely on their own revenues, or raise loans in the
London market. The Colonial Development and Welfare Acts gave sanctions for
spending up to about £350 million, during the last eighteen years, as outright
"aid" to the colonies. In addition, government-to-government loans up to
about £100 million have been arranged. The rate of interest to be paid by the
colony is the same as for a similar loan if raised by the British Government
for their own use. This is very cheap, as it would be impossible to raise any
loan either in London or anywhere else at this rate of interest. Mention
should be made of the activities of the Colonial Development Corporation,
which has received certain funds from the British Government. Although the
Colonial Office does not interfere with the day-to-day operations of the
Corporation, it has a duty to co-ordinate and instruct.

A feature of recent development is the non-reliance of Hong Kong for aid.
In fact, Hong Kong has exported capital to Malaya. This shows that Hong Kong's
rate of investment has reached a point where it is looking outside its own
borders for investment. Satisfactory developments can be reported in the case
of Trinidad, Singapore and Jamaica.

Furthermore, a description of the financial aid given to colonies was
given along the lines described in connexion with the last (1958) study trip
MARKETING OF PRIMARY PRODUCTS

Tobacco

Federal Republic of Germany

The transformation of tobacco into cigarettes in the industrialized countries is not, relatively speaking, a complicated technical process, but it is one in which mechanization of the process has reached an advanced stage, as was seen from the visit to the factory of the British American Tobacco Company's factory near Hamburg.

This factory, which has been in operation for some ten years, previously produced several different blends and brands of cigarettes for the German market, but the demand for one particular brand of the Company's production has recently risen to such an extent that it now concentrates entirely on the output of this one brand. The brand now being produced here falls into the broad group of cigarettes which is generally known as the "American-type" cigarette, that is, it consists of a blend of three different types of leaf tobacco - Virginia, Burly and Turkish - and, in addition, also has a filter tip. Before the second world war, this type of cigarette was little known on the European market and the preference was almost exclusively for cigarettes made entirely from Oriental-type tobacco - the type of cigarette which was known fairly generally as "Turkish". Since the war, however, tastes in Germany have changed considerably, due, it was suggested, to the fact that Turkish tobacco was very difficult to obtain for some considerable time after the war and also to the fact that the presence of American forces in Germany led to the public becoming acquainted with and accustomed to the American-type cigarette and acquiring such a marked preference for it that although cigarettes made from the Oriental-type leaf are now freely obtainable, there has been little or no tendency for a return to the consumption pattern of the pre-war days and the American-type cigarette today accounts for nearly 80 per cent of all cigarette sales on the local market.

One lesson which this would appear to illustrate is that even where the demand for a particular product seems to be relatively inelastic because of established tastes, an interruption in suppliers, or a relatively large increase in its price, may well result in a substitute commodity becoming so well established in the public's sale of preferences that this market may be permanently lost to the original product when it is once again in free supply at reasonable prices.

The Company buys the Virginia, Burly and Turkish which it requires for the manufacture of its cigarettes in most of the main producing centres of the world and after reaching the factory, this tobacco is unpacked from the bales and hogsheads in which it is transported and stored in the bonded warehouse.
until it is required; the import duty only being paid as the tobacco moves from the warehouse into the factory proper. As the initial treatment given to the Virginia and Burly leaf is somewhat different from that given the Turkish leaf, it is necessary to make a distinction between the two groups at this stage.

Once inside the factory, the Virginia and Burly leaf is subjected to heat and moisture treatment to make it soft and pliable. The leaves are then separated, cut and placed on a moving conveyor belt which feeds them into a series of machines which first saw off the top portion of the leaf and separate it from the remainder which is then threshed to separate the tissue from the stem. This tissue and the top portions of the leaves are then broken down into fine particles while the stems are dried, rolled, re-heated and moistened and finally cut up very fine whereafter they join the rest of the leaf in the storage and then the mixing bins. Conveyor belts feed the different tobacco horizontally into long mixing bins and the resultant mix is drawn off vertically for the next stage of manufacture, thus ensuring an even blend.

The Turkish tobacco, having a much smaller leaf than either the Virginia or Burley, and consequently little stem, does not require this elaborate initial treatment and the leaves after being conditioned by having moist air of a controlled temperature and humidity drawn through them for a period of about twelve hours are then fed straight into the threshing machines where both tissue and stem are reduced to fine particles in one operation, the results joining the fine Virginia and Burly tobaccos in the mixing bin. Needless to say, the flow of the three different types of tobaccos into the mixing bin is regulated to predetermined plan, so as to produce the particular blend required. The blended tobaccos are then loaded by hand into the central storage bin which automatically supplies the individual cigarette-making machines with tobacco. Incidentally, this is the only time tobacco is touched by hand during its whole progress from leaf to cigarette. The cigarette-making machines are ingenious pieces of equipment, working at high speed, while the tobacco from the storage bins is fed into a continuous strip of paper which is folded around it and glued together to form a continuous tube which is then cut into short lengths, has the filter tips attached and these short lengths are then cut again to the correct length for cigarettes; each machine in this particular factory being capable of a production of about one million cigarettes an hour. The cigarettes are then fed by hand into the next series of machines where they are wrapped in foil packs in batches of twenty, have the tax stamps attached, are wrapped in cellophane paper and after being checked are parcelled into cartons for despatch to the selling company.

On the question of obstacles to the purchase by German cigarette manufacturers, of tobacco from the under-developed countries, it was generally agreed by those in the trade that provided the price and quality of the
tobacco were reasonable and that the type of leaf was that required by the German taste, there would be no insurmountable obstacles to the under-developed countries selling their tobaccos in Germany. One point of particular importance which was made in the same connexion, however, was that even if the price and quality of the leaf were suitable it was important that the proportion of stem did not exceed more than 25 per cent by weight of the whole leaf, which was the normal acceptable maximum for Virginia and Burly leaf, since this would render it unpopular with the manufacturers and the particular example of Indian tobaccos was quoted where the percentage of stem had, generally speaking, been above 25 per cent and this had resulted in the complete cessation of purchases from this source. Another point which it was suggested might be taken into account in connexion with the export of tobacco by the under-developed countries, was the export of unstripped tobacco which would result in exports commanding a relatively higher price in the countries of consumption. At the moment this was not practicable to countries such as Germany where unstemmed tobacco was dutiable at a higher rate than the full leaf. This differential duty was, however, a point which might profitably be taken up with the German Government in the interests of trade from the under-developed countries, as if the import duties on both stemmed and unstemmed tobacco were aligned, the exporting countries could perform the initial processing of their tobacco before exporting it, thus taking the first steps towards the building up of industry, giving more gainful employment to their peoples and also obtaining a relatively higher price for their exports.

The Austrian Tobacco Monopoly

The first recorded importation into Austria of tobacco, for medicinal purposes, took place in 1570 and from then the habit of smoking gradually spread throughout the country despite the very severe penalties imposed on those people who were caught indulging their tastes. After 1670, however, the penalties were abolished and tobacco could be freely imported and even grown locally provided that the required fiscal duty was paid. In 1784, the Emperor Josef II, casting about for ways and means of increasing the State revenue, decided to set up an Austrian Tobacco Monopoly having the sole right to import tobacco, to purchase all the locally grown tobacco which was available to manufacture products from tobacco and to sell tobacco and tobacco manufactures on the local market. This was done by a decree of 5 May 1784, by which the Austrian Tobacco Monopoly or "Österreichische Tabakregie" was created.

This organization continued to function in much the same form as it had been established until 1939, when it was replaced, except for its retailing facilities by a German institution with powers of imposing and collecting
tobacco duties. With the re-establishment of the Austrian State in 1945, the "Osterreichische Tabakregie" was reconstituted on 13 July 1949 as a joint stock company, on the Swedish model, to give it greater autonomy and flexibility in dealing with its own affairs. This reconstituted "Osterreichische Tabakregie" was given full powers to preserve its monopolistic position and specific reference is made in the law to the following points:

- (a) All tobacco whether raw, manufactured or waste, is subject to the control of the Monopoly.
- (b) The prices of tobacco and tobacco manufactures to the consumer are to be established by the Ministry of Finance subject to the approval of Parliament.
- (c) The retailing of tobacco and tobacco manufactures is to be carried on only by the people who have been authorized by the Monopoly to do so.
- (d) The Regie is to be subject to the complete control of the Ministry of Finance and its activities in the fields of production, manufacturing and retailing of tobacco and tobacco products are to be administered by the Regie.

Thus the whole trade in tobacco, from local production or importation, through processing or manufacture, to the placing of the final product in the hands of the ultimate consumer is subject to the "Osterreichische Tabakregie". The Monopoly still continues to justify Emperor Josef's faith in it as a profitable source of State funds and even today the tobacco excise tax paid by the Regie to the Federal Exchequer accounts for about 50 per cent of total excise duties. Contributions by the Monopoly to the State budget over the last few years, expressed in United States dollars, have been as follows:

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<th>Year</th>
<th>Payment to Exchequer (US dollars)</th>
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<tr>
<td>1955</td>
<td>$46 million</td>
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<tr>
<td>1956</td>
<td>$48 million</td>
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<tr>
<td>1957</td>
<td>$50 million</td>
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<tr>
<td>1958</td>
<td>$56 million</td>
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These payments to the State finances are the result of a consumption tax, a sales tax and, where the tobacco has been imported, a turnover tax as well; the proportion of taxes in the final consumer price of the finished product amounts to nearly 60 per cent of the whole. In addition to importing tobacco, which is purchased by the Monopoly entirely according to commercial
considerations, in the same way as any private firm, the "Österreichische Tabakregie" also imports, in the interests of the tourist trade, the most popular and well-known tobacco manufactures of other countries. These foreign products are sold on the local market at a price determined by the Monopoly which is, of course, fixed somewhat above the prices of the comparable local product so as not to be too competitive with it, but at the same time not too high to prohibit the purchase by tourists of their favourite brands. The selling price of these foreign products, like the local ones, includes the 60 per cent revenue taxes mentioned above. Visitors to Austria from the Continent are allowed to bring in with them up to 200 cigarettes or the equivalent quantity of tobacco duty-free, and overseas visitors 400 cigarettes or the equivalent quantity of tobacco. All imports above this amount and all other imports of tobacco and tobacco manufactures are liable to customs duty, monopoly tax and turn-over compensation tax which make the price of the imported article virtually prohibitive; these taxes would amount to about Sch.770 for 2,000 cigarettes, Sch.4,000 for 1,000 average quality cigars and Sch.430 for 1 kg. of tobacco. Even after importation and payment of these almost prohibitive taxes, the imported tobacco and tobacco manufactures may not be processed, manufactured or sold, since these functions - as has already been explained above - are the exclusive prerogative of the Monopoly: there are therefore absolutely no prospects for the development of any substantial private trade in either tobacco or tobacco products.

With regard to consumption and taste trends, the experience of the Monopoly has been very much on the same lines as that of the private firms in Germany which had been previously visited by the group. Before the Second world war, the vast majority of cigarettes smoked in Austria were of the Turkish type, that is, those cigarettes made entirely from Oriental-type tobacco. Since the end of the war, however, tastes in Austria have changed considerably and it is now the American blend - that is, the type of cigarette made from a mixture of Virginia, Burly and Oriental tobaccos, which is now by far the most popular; of the total cigarette production of the "Österreichische Tabakregie" the proportion of American blend cigarettes manufactured is now about 80 per cent while the proportion of the Turkish type cigarette is only 10 per cent. The per capita consumption of cigarettes in Austria in 1958 was 1,267 and cigars 14: comparable per capita consumption figures for cigarettes in other countries were given as: United States 3,000, Great Britain 2,400, Switzerland 2,000, Belgium 1,600, France 1,400, Germany 1,300 and Italy 1,000. It was thus felt that there was likely to be an increase in the consumption of cigarettes in Austria, but the prospects for increased sales of cigars, pipe tobacco and snuff were not considered promising. An increase in the consumption of cigarettes, however, would result in increased purchases of tobacco abroad since local production amounted only to about 700,000 kgs. and was not expected to increase substantially despite the relatively favourable prices paid to local growers by the Monopoly because of the shortage of suitable agricultural land. Purchases by the Monopoly of foreign tobacco in 1958 from the main sources of supply were as follows:
Country of Export | Quantity
--- | ---
United States | 3.1 million kgs.
Greece | 2.6 million kgs.
Turkey | 0.9 million kgs.
India | 0.7 million kgs.
Bulgaria | 0.5 million kgs.
Rhodesia | 0.2 million kgs.
Yugoslavia | 0.1 million kgs.

Officials of the Monopoly considered that there were distinct possibilities for the under-developed countries to increase their exports of tobacco to Austria provided that the quality and price were competitive with tobacco from other countries and that the type of leaf grown in the under-developed countries was one which was suited to the local taste.

The Monopoly has its headquarters in Vienna and has six factories in Austria and one in Germany making its products. The manufactures are sent from the factory to a few central warehouses and are distributed from them to the 257 distribution points from which the retail shops draw their supplies. One interesting feature of the distribution system which did emerge during discussion was that it had long been the policy of the "Österreichische Tabakregie" to grant licences to retail tobacco and tobacco products only to those people who were disabled war veterans. This method of allocating licences had worked well for some time, but in recent years and particularly after the last world war, some discretion had to be exercised in this connexion since the number of disabled veterans far exceeded the number of retailers' licences the Monopoly was prepared to grant.

Cocoa

On the afternoon of Friday 5 June 1959, the trainees visited the Cocoa Market at Plantation House in London. The Secretary of the London Cocoa Terminal Market Association led a discussion on the market and after the completion of the 3.30 p.m. "call" the trainees paid a visit to the offices of Messrs. Plantation and Colonial Products Limited, dealers, and Messrs. Wilson Swithett and Cape, brokers.

The Cocoa Market - The membership of the Cocoa Market includes both brokers and dealers. Brokers are those firms which buy or sell on behalf of their clients and normally get a commission for their services. Dealers, however, operate on their own account and depend on arbitrage for their income. At the Exchange, member firms usually stand around in a semi-circle
facing a large blackboard on which is recorded the opening and closing figures of the previous day and previous "call" period and also of the last closing figures of the New York Cocoa Exchange. All trading is done by open bargaining usually by shouting the price, date of delivery and amount. Cocoa is dealt in lots of multiples of five tons. All prices quoted are for good Accra fermented and for any other kind of cocoa the appropriate adjustment in price is worked out later according to predetermined factors. A "call" is when the Secretary takes down the official trading prices and amount to be put up on the board. There are two such ten-minute "calls" per day. One of the main advantages of the Exchange is the fact that all consumers can protect themselves against price fluctuations by buying for future dates.

Messrs. Plantation & Colonial Products Limited and Messrs. Wilson Swithett & Cape Limited - At the offices of the merchants mentioned above, trainees were able to examine different samples of cocoa beans drawn out of different lots of parcels from various cocoa producing countries. It was evident that cocoa is stripped in all kinds of quantities. Trainees were able to examine good fermented, unfermented, under-fermented, slated and wormy beans. After careful examination of the different lots of samples, the party came to the conclusion that there was considerable room for improvement in the quality of cocoa exported and that producers could earn more for their produce if they were more diligent with their fermentation methods.

The quality of cocoa from Ghana could, for example, be improved by increasing the incentive given to the farmers, e.g. by removing the "take over" price and paying a differential price related to qualities and also by an increased control of the quality of the outgoing shipments.

The London Metal Exchange

To understand clearly the precise functions of the London Metal Exchange, it is first necessary to draw a distinction between the London Metal Market which embraces all dealings in all metals through the hands of the London merchants and dealers and the London Metal Exchange dealing in copper, tin, lead and zinc, on which the London dealers trade with each other either to dispose of their temporary surplus holdings of those metals or to make up shortfalls in their requirements so as to be able to fulfil their commitments.

The London Metal Exchange or Metal Market and Exchange Company Limited, as it is called, was incorporated on 30 July 1881, to meet the needs of producers, consumers and dealers in tin, copper, lead and zinc. By making use of this market, producers were able to sell their products as they were produced, consumers were able to buy their metal requirements as they were wanted and also by "hedging", to insure themselves against increases in the prices of the metals they were to use; dealers by buying and selling "forward", were able to maintain a balance position between supply and demand, thus levelling out excessive short-term price fluctuations. The Metal Exchange operated until 1939, when it was closed due to the outbreak of the second world war and re-opened for tin in 1949, lead in 1952 and copper and zinc
in 1953. Since its re-opening, the official turnover has increased from year to year, but had not, up to 1957, reached its pre-war level. It was suggested that this was due to the fact that in recent years more and more metals, a proportion of which would have passed through the Exchange, have been absorbed into the United States stockpile and also to the fact that long-term contracts between producers and consumers cover a much higher proportion of the metal trade than pre-war. It is generally believed, however, that the volume of "kerb" market business is greater than pre-war.

The relative figures for official dealings in 1956 and 1957, compared with those in 1938, are as follows:

<table>
<thead>
<tr>
<th>Metal</th>
<th>1938 (long tons)</th>
<th>1956 (long tons)</th>
<th>1957 (long tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper</td>
<td>475,000</td>
<td>300,225</td>
<td>350,175</td>
</tr>
<tr>
<td>Tin</td>
<td>91,000</td>
<td>39,835</td>
<td>53,040</td>
</tr>
<tr>
<td>Lead</td>
<td>387,000</td>
<td>200,800</td>
<td>188,475</td>
</tr>
<tr>
<td>Zinc</td>
<td>296,000</td>
<td>213,850</td>
<td>278,325</td>
</tr>
</tbody>
</table>

and for the "kerb" dealings as follows:

<table>
<thead>
<tr>
<th>Metal</th>
<th>1956 (long tons)</th>
<th>1957 (long tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper</td>
<td>94,950</td>
<td>107,075</td>
</tr>
<tr>
<td>Tin</td>
<td>8,075</td>
<td>7,555</td>
</tr>
<tr>
<td>Lead</td>
<td>9,025</td>
<td>12,900</td>
</tr>
<tr>
<td>Zinc</td>
<td>8,450</td>
<td>22,750</td>
</tr>
</tbody>
</table>

It must be emphasized again, however, that these figures, in themselves, do not give a complete picture of the influence of the London Metal Exchange on world trade in copper, tin, lead and zinc, since buying and selling orders are married outside the Exchange on the London market and only the difference in the dealers books between buying and selling orders is actually traded on the floor of the Exchange. The official exchange price is used as the basis for most dealings in the few metals throughout the world, prices being adjusted according to the terms of delivery and the relative form or purity of the metals in relation to the regulations of the Exchange. The basis for the London Metal Exchange prices are:
Copper - wirebars, duty-free in warehouse

Tin - minimum 99.75 per cent, duty-free in warehouse

Lead - 99.97 per cent on ship, wharf or warehouse, exclusive of import duty or similar premium for Commonwealth metal

Zinc - 98.00 per cent on ship, wharf or warehouse, exclusive of import duty or similar premium for Commonwealth metal

Delivery of these metals in the United Kingdom is effected by presentation of a warrant on an approved London Metal Exchange warehouse.

Dealings on the Exchange are restricted to those kinds of metals officially registered and the minimum quantities of metal which may be dealt in, known as lots, are laid down as five tons for tin, and twenty-five tons for copper, lead and zinc. Copper and tin may be traded either spot (for cash) or for delivery any other day up to three months ahead. Lead and zinc are traded for delivery during the current half month and up to three months ahead.

The actual business of the Exchange, unlike some other commodity markets where trading continues for long periods, is concentrated into few five minute sessions for each of the few metals; two of these sessions take place in the morning and two in the afternoon. The daily times for conducting business are as follows:

**Morning**

<table>
<thead>
<tr>
<th></th>
<th>12.00 - 12.05</th>
<th>12.30 - 12.35</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tin</td>
<td>12.05 - 12.10</td>
<td>12.35 - 12.40</td>
</tr>
<tr>
<td>Lead</td>
<td>12.10 - 12.15</td>
<td>12.40 - 12.45</td>
</tr>
<tr>
<td>Zinc</td>
<td>12.15 - 12.20</td>
<td>12.45 - 12.50</td>
</tr>
</tbody>
</table>

**Afternoon**

<table>
<thead>
<tr>
<th></th>
<th>3.45 - 3.50</th>
<th>4.10 - 4.15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tin</td>
<td>3.50 - 3.55</td>
<td>4.15 - 4.20</td>
</tr>
<tr>
<td>Lead</td>
<td>3.55 - 4.00</td>
<td>4.20 - 4.25</td>
</tr>
<tr>
<td>Zinc</td>
<td>4.00 - 4.05</td>
<td>4.25 - 4.30</td>
</tr>
</tbody>
</table>
Business takes place in a "ring" formed by four curved benches capable of seating forty members and on these benches sit the twenty-seven dealing members; there are altogether ninety members of the Exchange, but only the twenty-seven are permitted actually to deal in the metals, the remainder simply being allowed access to the room in which the dealing takes place, but not access to the "ring" where the buying and selling is done. Behind the curved benches and round the perimeter of the "ring" stand the non-dealing members and the clerks of the dealing members, who may, if authorized, deal on behalf of their principals and who note down the deals done by their principals and confirm them with the clerks of the principals with whom the deals have been done. The session commences with the posting of the name of the metal to be dealt in and the calling out of the name of the metal by the Secretary, whereupon offers to purchase and sell this particular metal are made by the dealers, together with an indication of the number of lots concerned and whether the deal is to be spot or future and if the latter, the period after which the contract must be met. Offers to buy and sell are made by the dealers until the price is considered reasonable by both sides at which point a deal is done. In the morning at the end of each session, the Secretary rings a bell to indicate that business in the particular metal is to cease and the official price, which is the average price determined by a committee at which deals were made at the close of the session, that is when the bell was rung, is announced by him. The name of the next metal to be dealt in is then posted, announced by the Secretary, and business takes place in that metal until the bell goes; this sequence is repeated for each of the metals, each session lasting exactly five minutes. A "kerb" market of fifteen minutes takes place inside the "ring" after the official prices have been announced to enable clerks to clear their books and buyers and sellers to trade through the dealers after knowing the official price for the day.

At the conclusion of the afternoon session, the closing prices are not read by the Secretary and are therefore not official, but they are agreed by the three senior dealers present and are still used as a basis for the "kerb" dealings which take place for ten minutes after the close of the official dealings. In addition, the New York market is open while the afternoon session takes place and the general situation and prices fixed in the United States can be taken into account and arbitrage conducted with New York.

On the question of future long-term prices for the metals dealt in on the Exchange the general feeling was that the price of copper could not long remain above between £240 - £250 a ton, since this was the price at which the substitution of aluminium for copper in many of the latter's uses became an economic proposition. It was pointed out that although the price of copper had, within recent months, been within this substitution range, this was mainly because of fears over future supplies of the metal, if no new agreement, to replace the existing one between the United States producers and mine-workers, due to expire at the end of June, was concluded; disregard the possibility of American supplies being interrupted, however, it was generally
felt that despite the recovery of business, particularly in America, there was still more copper on offer than would be taken up at current prices and the long-term price would therefore probably be lower than that of the last few months.

In the case of tin, the International Agreement on the metal appeared to ensure relative price stability for the future, but much would depend on the careful management of the buffer stocks. The future of lead and zinc prices was much more difficult to predict since unlike copper there were many small producers of these metals and unlike tin, no agreement to control output had been concluded. In addition, the introduction of import quotas by the United States had had the effect of channelling all free sales of these metals to the London market with the result that the prices of lead had fallen quite sharply, and a lesser decline had occurred in the price of zinc. The position at the moment was too complicated to say whether the long-term prices for lead and zinc would be above or below the current prices for these metals on the Exchange.

USEFULNESS OF LABOUR-INTENSIVE PRODUCTION

To show the trainees a factory which relies more on the availability of manpower than on technical efficiency, a tin can factory was visited in Altona, Hamburg. This factory is placed in a region where female labour (in particular) is easily available. Therefore, the administration considered that it is more economically and socially justifiable to make use of it than to modernize the production and thus to put out of work persons who could not be gainfully employed in that region. Attention could be drawn to the fact that similar situations might exist in certain regions of countries not yet fully developed technically.

The "Altona" factory is one of the factories in the Federal Republic of Germany producing tin cans. The types of these cans produced ranges from vegetable and fruit cans to oil and paint cans. For production of cans in question the factory is being supplied with sheet by German industry as well as by United States and Netherlands producers.

The factory is producing exclusively for home market. Exports are not possible because of high transportation costs. The factory is of medium size (ca 300 workers) and faces strong competition from other similar factories. Almost all workers, other than technical staff and mechanics, are women. The technical equipment of the factory is rather modern but it seems that there is still room for further modernization. The piece-work done at the factory is the best example of the system. According to the opinion of managing staff, fully automatic production is entirely possible, but such an undertaking would be too costly and at present not justified. The reasons for this are as follows: the current production is running only at half capacity and the period of amortization of existing machinery is ten years. Another reason is the uncertainty regarding future orders. The factory is getting orders from ca 200 firms and some orders are not exceeding
200 cans. These orders are placed from day to day and nobody knows if they are to be repeated the following week. Finally, the production is also dependent on the season. That is why the fluctuation in labour is a very frequent phenomenon in the factory. This creates additional difficulties in recruiting labour when needed.

In conclusion it should be said that although the high proportion of manpower to capital employed in this factory might be justified by the management on the grounds of the availability of labour, certain heavy jobs might profitably be taken over by machinery.