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

Commodity Annex No. 1

COCOA

Additional amendments proposed by the Six

Page 2 - At the end of the paragraph entitled "The Possibility of the Application of Quantitative Restrictions", add the following sentence:

"Quantitative restrictions have only been applied in France since 18 June 1957, as part of a general programme of withdrawal of trade liberalization measures. Prior to that date it had been the practice of France to follow a liberal policy in regard to imports of cocoa."

Page 4 - paragraph 3 - at the end of the first sentence, add the following:

"although unstable prices are characteristic of international trade in this commodity."

Page 10 - paragraph 11 - at the end of the first sentence, replace "the producer" by "prices", and insert the following:

"Experience had shown that there was little likelihood that if a 9 per cent duty were levied, the producer in the Ivory Coast, for instance, would receive, all other things being equal, a price 9 per cent higher than that received by the producer in Ghana, on the other side of the frontier."

Page 17 - paragraph 29 - replace the last sentence by the following:

"The representatives of the Six added that it was not at present possible to prejudge the decisions which would be taken in this regard by the European institutions."
Page 3 - paragraph 2 - in the table, under 1, replace "French West Africa" by "Ivory Coast", since the Ivory Coast is the only cocoa producer among the 8 territories which make up French West Africa.

The percentages should read:

1955: 43 per cent instead of 21
1956: 32 per cent instead of 14

Page 4 - paragraph 3 - in the sixth line, add "Ivory Coast".

Page 7 - paragraph 1 - amend to read: "The Working Party recognized that the association of the Overseas Territories with the Common Market would, as in the case of any free-trade area, involve an element of preference,...etc."

Views of the Representatives of the Six

1. The 9 per cent duty does not represent an increase when compared with the average level of the legal tariffs which can even now be applied by the countries concerned. Furthermore, wherever the level of protection is higher than the present tariff rates it will be introduced by stages, and experience has shown that a preferential margin of this kind is never fully reflected in prices.

2. The preferential margin will have only a relatively small effect at the stage of consumption of the finished product, on the one hand because the cost of the beans represents only one-third or one-half of the value of the finished product, and on the other hand because A.O.T. production will be very far from meeting the total requirements of the Six. On the contrary, it may reasonably be expected that consumption will increase, especially as a result of the rise in standards of living and the reduction of the import duty in the Federal Republic of Germany, where it cannot be assumed that a fiscal charge will be imposed to compensate for the reduction in the customs duty. In Italy the expansion in the use of chocolate substitutes clearly indicates that there is room for a considerable increase in chocolate consumption. Moreover, independent experts predict that world consumption will increase by 2 per cent in the next few years, an estimate which the representatives of the Six consider to be cautious.

3. Apart from the fact that additional production resulting from plantings made before the Treaty was drawn up cannot be considered as being in response to the provisions of the Treaty itself, A.O.T. production in the foreseeable future cannot possibly approach a level sufficient to meet the requirements of the Six. Present efforts to improve old plantations and to increase yield will show results only very slowly. The rise in production in recent years cannot continue at the same rate, if only because yield from the marginal areas which would be used would be poor. Though production in Ghana rose
from 6,000 to 135,000 tons between 1905 and 1920, the explanation lies in the fact that the rate of increase is of course high when starting from negligible quantities. The A.O.T's, however, have been growing cocoa for a long time. Furthermore, cocoa is an African crop which does not react to European ideas of investment. It is as yet too early to say how the capital available from the Investment Fund will be allotted, but it will probably be devoted to the diversification of economies which are at present far too dependent on a limited number of crops.

Because of very unfavourable weather conditions, A.O.T. production will amount only to 120,000 tons for the 1957/58 season, but the normal figure is about 135,000 tons. The most optimistic forecasts allow for an increase of 23,000 tons in five years' time and a further increase of 12,000 tons in ten years' time.

Only in exceptional circumstances will producers benefit from the protection afforded by the Treaty of Rome; the principal concern of producers is to see some stability in world prices, which sometimes are doubled or halved in a period of a few months.

4. As has already been seen, the increase in A.O.T. production will be far from sufficient to supply the requirements of the Six. This holds good in respect of quality as well as quantity. Since furthermore protection will be introduced only gradually and it will still pay to sell to the dollar area, the provisions of the Treaty will not cause dislocation of existing trade patterns. A slight shift in A.O.T. exports away from certain markets would in any case create additional outlets for supplies from other countries.

5. Since the provisions of the Treaty will be implemented very gradually, the immediate effects of this Treaty will be non-existent or insignificant. In the long run the expansion in A.O.T. production will at most amount to only a small proportion of the rise in consumption by the Six. This rise in consumption by the Six will be a consequence of the implementation of the Treaty, and the FAO has assumed that the rise in world consumption will be at least 2 per cent per annum.

It is obvious that any fall in prices would affect all countries, and that it is the interest of the A.O.T's to avoid such a situation. A depression would not be a consequence of the protection afforded by the Treaty, but would result from violent movements in world prices which are completely unrelated to the preference.

6. Semi-manufactured cocoa products are at present exported only in relatively small quantities, the amounts from tropical Africa being limited mainly by technical difficulties, and it is as yet impossible to say at what level the duties may later be fixed.

7. The fact that France has recently applied quantitative import restrictions, for general reasons and for a limited period, is no indication of the future policy of the Six regarding quantitative restrictions, and the Six reaffirm their intention to respect the GATT rules.
8. Although it is still too early to say what measures will be applied to cocoa under the Treaty, it can at any rate be taken that the Six do not at present intend to institute a "managed market" for this commodity.

IV. CONCLUSIONS

Although, like any free-trade area which may be established in accordance with the provisions of the GATT, the Association of the Overseas Territories with the European Economic Community involves an element of preference in regard to cocoa, the foreseeable effects on production, consumption and trade patterns will, in the short run, be non-existent, and in the long run very limited. These effects will in any case be considerably less than those of fluctuations in world prices, and negligible by comparison with them.