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

Commodity Annex No. 1

C O C O A

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 eight territories which make up French West Africa.

The percentages should read:

1955: 43 per cent instead of 21
1952: 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 be reinstated at any time by the countries concerned. Furthermore, wherever the level of protection is higher than the present tariffs it will be introduced by stages, and experience has shown that a preference of this kind is never fully reflected in prices.

2. The protection 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 fall far short of the total requirements of the Six. On the contrary, it can 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 stated in advance 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 are of opinion that world consumption will increase by 2 per cent in the next few years, and the representatives of the Six consider this to be a conservative estimate.

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 meet and will in fact fall far short of the requirements of the Six. Present efforts to renew 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 of the poor yield from the marginal land which would have to be used. Production in Ghana could increase from 6,000 to 135,000 tons between 1905 and 1920 because 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 growing in Africa is a notion that is quite alien to the European concept of investment. On the other hand, 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 would be in the neighbourhood of 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.

Considering that the Treaty of Rome will favour producers only in exceptional circumstances, their main concern is to see some degree of stability in world prices, which sometimes are doubled or halved over a period of a few months.

4. As has already been indicated, the increase in A.O.T. production will fall far short of the requirements of the Six. This is true in respect of quality as well as quantity. Considering also that protection will be introduced only gradually and that in any case the dollar market will still offer greater advantages, 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 short-term effects of the Treaty will be non-existent or insignificant. In the long run the expansion of A.O.T. production will represent not more than a small (if any) 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 world consumption will, according to FAO forecasts, rise at a rate not less than 2 per cent per annum.

It is obvious that any slump in prices would affect all countries, and that it is the interest of the A.O.T's that this should be avoided. Such a slump would not be a consequence of the protection afforded by the Treaty, but of the undue fluctuations in world prices which are completely unrelated to the preferences.

6. Semi-manufactured cocoa products are at present exported only in relatively small quantities, deliveries from tropical Africa being limited mainly on account of technical difficulties, and it would be premature at this stage to prejudge the level at which the duties will be fixed.

7. The fact that France has recently imposed 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. While it is still too early to say what provisions will be applied to cocoa under the Treaty, the least that can be said is that the Six do not at present intend to institute a "managed market" for this commodity.

IV. CONCLUSIONS

Although the Association of the Overseas Territories with the European Economic Community involves an element of preference in respect of cocoa, as would be the case with any free trade area under the GATT provisions, the foreseeable effects of the Association on production, consumption and trade flows 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.