SUMMARY OF VIEWS AND CONCLUSIONS OF NON-SIX PRODUCERS

The representatives of the non-Six producers, having considered the arguments of the Six, maintained that the creation of a new preferential system throughout the markets of the Six in favour of the A.O.T's gravely endangers the trade of other producers of tea. The preferential margin of 35 per cent was, moreover, fantastically high. Even at the end of the first transition period the margin would be at the high level of 8 - 12.5 per cent. The exports of the A.O.T's were hitherto directed to markets outside the Six, but a preferential margin of this order must result in an immediate complete switch of these exports to the markets of the Six, thus leading to a diversion of trade. Existing trade interests could not resist the economic pressure of such a wide preferential margin. The process of diversion would commence almost immediately, and would grow as production in the A.O.T's increased.

There was no justification at all for a preference as high as 35 per cent particularly as the existing tariff on tea in some countries of the Six was mostly of a fiscal nature. In fact the final common tariff could be substantially less than 10 per cent if the fiscal element were to be fully taken into account in the calculation of the common tariff.

The representatives of the non-Six producers further pointed out that the calculation of an unweighted arithmetic average, as had been done in the case of tea, did not take into account the size of the respective imports of the various members of the Six. The Netherlands which was the principal importer of tea had the lowest tariff of the Six so that a weighted average would have produced a considerably lower common tariff.
Price levels in the Community would increase, particularly in the Netherlands. A direct consequence would be a curtailment of demand for tea within the Community. This trend would be accentuated by the substitution of tea consumption by coffee as a result of the added price advantage given to coffee by the difference between the proposed common tariffs on tea (35 per cent) and coffee (16 per cent).

Meanwhile, the very large preferential tariff would give producers in the A.O.T's a very substantially better return on tea production than other producers receive and this would stimulate production there artificially. An additional production of at least 10,000 tons might well result by the end of the transition period which is 50 per cent of present consumption in the Six. With consumption in the Six tending to fall in the short-term and probably not rising much, if at all, in the long-term the margin left for third countries' supplies, after the expanded production of the A.O.T's was taken up, would decrease progressively.

Substantial losses would then follow for third countries who would be reduced to the role of residual suppliers. These losses, though small in relation to world consumption, would be especially important as consumption in the United Kingdom was unlikely to increase and consumption in other markets was generally static. There would, therefore, be a tendency to depress world prices of tea.

The inclusion of tea in Annex II of the Rome Treaty indicates that further non-tariff preferences could be extended to A.O.T. producers. If these agricultural provisions were applied or quantitative restrictions introduced the damage to the trade of third countries would be intensified.

Contracting parties whose trade would be affected by the measures proposed by the Six would be Ceylon, Indonesia and India to whom the tea trade is vital, Pakistan, Japan, British East Africa and the Federation of Rhodesia.