Statement by Mr. W.M. Blumenthal, United States Delegation, on 5 June 1962

Mr. Chairman, to begin with I would like to say that my Government considers that these discussions in the Group on Tropical Products must necessarily encompass a rather broad scope. I should like to refer to the terms of reference1 of the Group which, among other things, are "to consider ways of overcoming difficulties confronting less-developed countries exporting these products, and to make appropriate proposals bearing in mind etc.,". In our view it is necessary to bear in mind, therefore, the existing patterns of trade with regard to the more important tropical products in order to understand what the difficulties are. We would, therefore, like to begin by summarizing very briefly our understanding of these trade patterns. This will be very brief, because of the excellent work that has already been done by the secretariat and, for that matter, has been done for quite some time by various bodies studying existing trade problems in tropical products.

By way of introduction, Mr. Chairman, we would like to say, secondly, that, in the view of the United States Government, there is need to reach results speedily in the difficult area that we are dealing with here. For this reason we welcomed yesterday afternoon the statement of the distinguished delegate of Brazil and his call for "constructive specificity". We have done a great deal of talking over the years on these problems and, because of the important developments that are presently taking shape in various areas and because of the urgent need for specific action which is reflected in the weakness of the market for these products and the adverse prognostications which have been made with regard to the future, my Government feels very strongly that such specific action needs to be taken at the earliest possible point of time. Without question these products are of tremendous importance to the economies of many countries and are the central point around which many economies revolve; there is certainly no need for me to emphasize their vital importance to many countries in Latin America, Africa and Asia. The specific developments to which I refer, Mr. Chairman, are, of course, the discussions that are going on between the United Kingdom and the European Economic Community for the accession of the United Kingdom to the Community and, secondly, the discussions that are going forward between the Associated Overseas Countries and Territories of the European Economic Community regarding a new association agreement. Further, it is a fact that last December, six months ago, the Declaration on the Promotion of Trade of the Less-Developed Countries was adopted by the GATT and it is incumbent upon us, having regard to this lapse of six months, to move ahead as rapidly as we can now in implementing this Declaration.

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1 The terms of reference are contained in document L/1751.
Thirdly, by way of introduction, Mr. Chairman, may I say that the interest of the United States Government in this whole matter of seeking specific and speedy action is part and parcel of our overall policy on commodities with respect to which we have been clearly on record for some time. I had the pleasure of delivering a statement outlining our up-to-date views on this subject about two weeks ago in the United Nations Commission on International Commodity Trade. I believe that, if this statement is read alongside a similar statement which was delivered a year ago, the views and the policies of the United States Government with regard to commodities in general, not only tropical products, will be clear. The fact that we are concerned with these commodities is not only due to the fact that we are the single most important consumer of most of these commodities, but also because of our great interest in the efforts towards economic development being made by so many of our friends in various parts of the world and of the considerable effort which our Government is making to assist this development. The very fact that we are spending billions of dollars a year in assisting these economic development efforts, clearly demonstrates that we have a very close interest in the development of sound trade patterns and of export earnings from tropical products and other commodities. These are, in effect, two aspects of the same general problem and one could not possibly think about work on economic development without working seriously on commodity problems.

I would like now to cite briefly certain facts with regard to the major tropical commodities, relying primarily on the information which is available to the delegates as a result of the work done by the secretariat. Secondly, I would like to summarize for my colleagues what we consider to be the major problems that emerge from this analysis of present trade patterns. I would thereafter, as a third step, like to suggest a set of guide-lines that might underlie the framing of specific courses of action. Fourthly, I would like to be so bold as to suggest certain courses of action that might naturally flow from guide-lines of the kind that we have in mind.

Incidentally, I would like to emphasize that this outline of the problems is intended to be indicative rather than all-inclusive. The same comment needs to be made with regard to the guide-lines and the courses of action that we will be proposing. We are entirely open-minded with regard to the framing of these additional concepts and the courses of action that will eventually emerge, but we do want to see progress and action.
I would like to talk briefly with regard to the trade patterns of six products. I think it needs to be said that the situation with regard to four of these six is somewhat different than it is for the other two. The four that fall into the first general group in our opinion, Mr. Chairman, are coffee, cocoa, tea and bananas. These happen to be products for which there is no substitute available outside of strictly tropical areas. The other two, oilseeds and tropical woods, are somewhat different in that these are groups of commodities for which there are substitutes and which are directly competing with a whole wide range of inter-related commodities produced outside the tropical areas. This does not mean that, in our view, oilseeds and tropical woods are not equally important. They are important of course, and we must talk about them in great detail. It does mean, however, that specific solutions are more difficult to come by with regard to tropical woods and oilseeds, simply because the complexities and problems involved are greater than in coffee, cocoa, tea and bananas. These latter commodities are strictly tropical products grown only in the tropical areas. There are no substitutes available - at least I have not yet heard of a synthetic banana - and, although some years ago there was some talk of the development of synthetic coffee, that rather frightening suggestion seems to have receded from the scene. Let us hope that it will stay where it is for a long time to come.

With regard to coffee, Mr. Chairman, the situation is rather clear. Coffee is the second or third most important item in international trade after petroleum. We know that world trade in coffee is at the level of about 2 billion dollars a year; that it is of importance to fifteen countries in Latin America; that there are a sizeable number of African countries for whom coffee is the mainstay of their economy; and that, for some countries, the percentage of total export earnings that is derived from coffee ranges above 70 per cent. It is presently 72 per cent for Colombia for example, and there are certain other countries where it is also extremely high. Because of the drop in coffee prices in recent years, however, the percentage has declined. Unfortunately this has not been due to diversification of the economy but simply to a drop in export earnings from coffee. In Brazil, for example, presently a little more than 50 per cent of total export earnings is derived from coffee. To a large extent the decline in coffee’s share of total export earnings in Brazil has been due to a fall in coffee prices.

The supply/demand situation in coffee, Mr. Chairman, is very unfavourable at the moment. There are, as we know, extensive surpluses available in the world and all predictions indicate the generation of larger stocks in the future. Demand tends in most consuming areas of the world to increase generally in line with population increases. In present price ranges the price elasticity of demand for coffee is quite low. We have in addition, impediments to consumption of coffee in the world that are rather well known. There are internal taxes in
some countries. There is a duty levied on coffee in some countries. There are special arrangements between certain exporting and certain importing countries. As a result of these duties and taxes, the retail price of coffee is greatly increased. In the case of Germany, for example, the sum total of duties and taxes amount to 117 per cent of the import value of coffee. In Italy it is virtually the same. There are differential tariff arrangements in effect for certain countries in Europe and there is in addition special pricing in countries with so-called centrally directed economies. For example, the price of a pound of coffee in the Soviet Union is something like seven dollars a pound, and, as a result, per capita consumption of coffee is very low.

It is clear, therefore, that there are a number of major problems in trying to develop better patterns of trade in coffee and a better allocation of resources.

The situation in cocoa, Mr Chairman, although not as dismal as it is for coffee, is not very good. Production is definitely increasing faster than consumption. Again, there are countries which rely to a very large extent on export earnings from cocoa. In Ghana, for example, the figure is 59 per cent. Fortunately, there are not as many countries which derive as high a percentage of their total earnings from cocoa as there are with respect to coffee. In the Camerouns I believe the figure is 35 per cent; Nigeria 27 per cent; Ivory Coast 22 per cent; Brazil 6 per cent.

We have also, the more favourable factor that in the case of cocoa the price elasticity of demand at the moment is considerably higher than it is for coffee. In the United States, for example, consumption of cocoa has been increasing in the last two or three years by about 10 per cent a year, which is quite a remarkable figure. Incidentally, this increase has accompanied a decrease in the price for cocoa. Thus, in the case of cocoa there is at least one compensating factor for falling prices; the overall volume of consumption has responded favourably to lower prices. In cocoa too, there are special arrangements in effect. There is a common external tariff in sight for the European Economic Community which is discriminatory between some countries as against others. We have the same impediments to consumption through the levying of taxes and duties on cocoa in some countries. In the case of both coffee and cocoa there are negotiations scheduled for world-wide producer-consumer agreements which are of considerable importance. This is another similarity between these two commodities. A United Nations coffee conference is scheduled to begin 9 July and the Cocoa Study Group has just decided to hold a producer-consumer negotiating conference in the first two months of 1963.
Let me then move to tea, Mr. Chairman, where the pattern of trade is somewhat more favourable. Here again there have recently been increases in output. The main tea-producing countries, India and Ceylon, have averaged production increases of about 7 per cent per annum over the last few years. Consumption has increased by only 2 to 3 per cent a year. The results of this gap have not yet reached critical proportions and there has been considerable price stability in tea. The level of prices today for tea is about the same as the average for the period 1953/57. (Incidentally, a rather interesting fact if I may briefly revert to coffee to compare it with the fact that I have just mentioned. In coffee I noticed yesterday, Mr. Chairman, that there is remarkable stability in prices - the real price of coffee today is almost exactly the same as the price around 1900. I think this is an interesting fact to be borne in mind and perhaps shows more clearly than anything else, particularly if we compare the prices of certain manufactured goods, the predicament of countries who rely heavily on coffee exports.) The combination of taxes and import duties on tea in Germany again represents 94 per cent of the total value and in Italy over 50 per cent.

I want to move on to another commodity which we consider to be of great importance in international trade, namely, bananas. In bananas there has been a considerable weakening of prices over the last few years and a considerable increase in production. This is primarily due to the fact that Ecuador has entered the world market for bananas in the last few years and is now the single most important producer of bananas, accounting for 24 per cent of total world exports. Banana trade patterns are affected by taste preferences so that when one talks about bananas one has to distinguish between the different varieties. Bananas are further affected by the fact that in certain instances they are produced by countries where the possibilities of shifting into other productive activities are much more limited than they are, for example, if one takes the case of coffee in Brazil.

The importance of banana exports is extremely great for some countries and represents two thirds of export earnings for Ecuador and Panama, almost two thirds for Somalia and almost 40 per cent for the French West Indies. Bananas are also subject to an intricate set of special arrangements between the Associated Overseas Countries and Territories and the European Economic Community, arrangements which are discriminatory in character. The United Kingdom and France impose quantitative restrictions on banana imports from other than their associated countries and Italy, through a government monopoly, reserves its market almost entirely for Somalia.

I then move on to oilseeds and vegetable oils. Here, Mr. Chairman, the situation is characterized by the fact that vegetable oils from both tropical and temperate zone countries compete with each other. Soybean exports from the United States are included in this competition, all of which affects prices and trade.

As regards the exporting areas, Africa accounts for about 30 per cent of total world oilseed and vegetable oil exports, Asia 29 per cent and North America 26 per cent. Latin America is not a major factor. The supply/demand situation needs careful watching so that developing problems can be recognized and considered at an early stage.
Finally I would like to mention tropical woods where the picture is somewhat more stable than with regard to the other products. Here the expansion of supply depends in large measure on investment in transportation and in other facilities which permit the exploitation of timber reserves. Demand in consuming countries is simply a function of the general growth of the economy and, to some extent, of changes in consumer tastes. Overall demand tends to respond to income but as a result of changes in taste, demand for individual woods may vary radically from one year to another. In tropical woods the EEC common external tariff will, I believe, be 5 per cent on tropical hardwood logs and 10 per cent on sawn wood whereas in Germany and the Benelux countries they were in the past admitted duty free. The United Kingdom has a commonwealth preference on some types of about 10 per cent.

This very rapid and incomplete survey of the actual situation, Mr. Chairman, indicates that there are a series of important and difficult problems that we must face. Let me summarize our view of what the major ones are. First of all, in virtually every case the existence of demand/supply imbalances is reflected in turn by downward trends in prices, and in the case of some commodities, like coffee, that can be stored, the existence of large, and, in some cases, increasing surplus stocks. Any solution to be adopted, therefore, must take into account the need to improve the balance by expanding demand and by holding production within the limit of what can actually be consumed in the world.

This, in fact, is the second problem I would like to mention: how to increase demand and limit production for these tropical products. On the demand side, efforts to expand consumption raise problems of how to reduce internal taxes which restrict demand; and of how to reduce and eliminate tariffs, which have the effect of restricting trade in these products. It is in this context that the Nigerian proposal assumes particular importance. I shall return to this point later. On the supply side, some equally difficult problems must be faced. The existence of large and growing surpluses brings us face to face with the question of how to control production, of what commitments the producing countries should undertake in this regard, of what they are financially and otherwise able to do to restrict output to reasonable levels. Similarly, it raises the problem of the kind of commitments consuming countries might undertake to support diversification programmes and to assist the producing countries in other ways to achieve meaningful means of production control. I think this is a very important point which is sometimes overlooked. In this regard I wish to point particularly to the draft coffee agreement which contains provisions dealing with this matter. In the opinion of my Government, such a provision is absolutely essential. Producing countries must make commitments to put their production houses in order, so to speak. Consuming country members of the agreement could commit themselves to support these efforts.
It does no good to seek remedies for declining prices of raw materials if raw materials production is permitted to increase without limit. As a result of the scientific revolution, productivity increases are spreading to tropical as well as non-tropical agriculture. No effort to stabilize prices or increase earnings can be successful over the long run, if it does not take this fact into account and include a mechanism for production control.

The third problem, Mr. Chairman, arises from the rapid breaking up of old trade patterns. I have already referred to the negotiations that are being carried on between the United Kingdom and the EEC and to the discussions presently in progress between the Associated Overseas Countries and the EEC. We are, in other words, in a period of rapid change and the problem is that if we don't act quickly events may overtake us. These changes present us with a golden opportunity, but we must act quickly. Global patterns of trade are also changing because of the rise of new, independent nations in the producing areas. The colonial patterns have, in effect, broken up. New independent countries have come into being and the trade patterns which existed in the past are not likely to continue. A further factor making for the development of new trade arrangements arises from the fact that virtually all consuming countries now recognize the importance of producer-consumer co-operation and the desirability of negotiating commodity agreements for certain commodities. Many consuming countries are also heavily committed to aid economic development in general. In other words, Mr. Chairman, we are facing an entirely new situation which must reflect itself in new and improved trade relations.

The fourth problem, Mr. Chairman, is the existence of certain special arrangements in the trade of these products which are of a discriminatory nature and which distort the efficient allocation of resources, both in the country receiving preferential treatment, and in the country adversely affected by discrimination.
We would submit that while these arrangements have had important beneficial effects, helping to stabilize the export earnings of these countries and by making it possible for them to sell their products, the problem is now how to move away from these arrangements and substitute for them new world-wide arrangements which will provide new and better benefits for developing countries. These benefits would have to be at least as good - I would say, better - than those afforded by past and present arrangements. If we are able to do this, we shall achieve a better allocation of resources in all producing countries - one that increases productivity, one that guides production to those areas where it will take place on the most efficient basis, and one that brings about diversification of these economies and gets them away from undue reliance on a few tropical products.

Mr. Chairman, I should now like to turn to what might be guide-lines for future action with regard to trade in tropical products.

At the outset I would suggest that we have an excellent set of guide-lines in the Declaration of 7 December 1961. It is the most comprehensive statement of the principles that ought to underlie the promotion of the trade of the less-developed countries, which, of course, includes tropical products. I would add that this represented a great step forward, but I think it would be extremely useful if we could expand these principles, adopting certain additional guide-lines, as necessary, to underline our efforts to expand trade in these products. We would suggest as among these guidelines the following points:

First, the approaches we select must be world-wide in character because the problems with which we are dealing are in fact world-wide in character. It is not possible to find solutions solely on a regional basis, since consuming countries are inter-locked in their trading relations with the producing countries. The best allocation of resources and the greatest gains from trade are achieved in a world-wide context.

Secondly, and for similar reasons, I would suggest that any approaches we adopt be multilateral in nature.

Third, I would suggest that the approaches be non-discriminatory in character. Discrimination is contrary to the principles of the GATT to which we all subscribe. Where discrimination exists it should be clearly recognized as being temporary and transitional in nature. If it must be continued for a temporary and transitional period, it should be coupled with provision for compensatory benefits to those countries which are disadvantaged as a result of the continuation of such discrimination. These compensatory benefits should further the development programmes of those countries which suffer from the perpetuation of discrimination. Our overall objective should be, however, the elimination of the discriminatory element.
Fourth, tropical products - and I would say first and foremost those products which are exclusively tropical, which are produced only in tropical areas, and which have no substitutes produced in other areas - should not be taxed. Taxes inhibit the consumption of these products with adverse effects on the prospects of the developing countries, countries which have difficulties in any case. I think one of the most important principles is that there should be a movement away from the traditional pattern whereby, in certain areas, these products have been taxed for revenue purposes.

Fifth, we should proceed to examine particular problems on a commodity-by-commodity basis. It is a fact that the problems of coffee are not the problems of hardwood and the problems of oilseeds are not the problems of cocoa. Insofar as there are certain underlying similarities in these problems, it would be well to adopt a general approach to them. In other respects, however, we must proceed on a commodity-by-commodity basis. Mr Chairman, there are already in existence certain commodity organs for some of these products. They have done and are doing valuable work. I refer to the Coffee Study Group and to the forthcoming meeting to negotiate a coffee agreement. I also refer to the work of the Cocoa Study Group and to its decision to meet in early 1963 to negotiate on a cocoa agreement. In fact a commodity-by-commodity approach is now in existence. We must continue it because even if there is agreement on new arrangements for coffee or cocoa, other products are also important to many countries. The problems of trade in these commodities, say tea or tropical woods, are different from those of coffee or cocoa and must also be considered separately.

Sixth, I would say that where possible the commodity-by-commodity approach should be supplemented by a more general approach which could be equally well applied across the board to all commodities.

For example, the United States Government is very interested in the proposals for compensatory financing which were discussed in some detail at the recent meetings of the Commission on International Commodities and Trade in Rome. One of the important benefits that has accrued to some of the African countries associated with European metropolitan areas in the past has been the stability of their earnings. We feel that stability (or the threat of instability) is an important factor - not the only factor but a very important one - in commodity trade. Possibly fluctuations can be eliminated and stability assured through some general fund related to export earnings generally and which could compensate for temporary fluctuations in these earnings.

We think that the Nigerian proposal to free tropical products from duties and fiscal charges is a solution which we should adopt.
The seventh point is that work on these two problems must be closely co-ordinated and, in fact, integrated with the work going on in relation to economic development. The draft coffee agreement tries to make a beginning in this direction. There are provisions which look toward economic development and the avoidance of over-reliance on coffee. I would like to mention, for example, the Gelca Plan which Brazil has in the blueprint stage, where a specific programme has been worked out to lessen Brazil's dependence on coffee and to reduce unwanted production. This type of plan must be very seriously considered as a part of any worldwide agreement on particular commodities. This should be an overall principle.

The question of bananas cannot be looked at without considering the economic development problems of, for example, Guadelupe, Martinique and Somalia.

Trade problems cannot be solved until a way is found to bring production down to those levels which can reasonably be expected to be consumed in the world. Ways must be found to help certain countries diversify and become more efficient in production.

It is quite clear that one cannot take precipitate action in regard to coffee or bananas where such action would adversely affect countries which have costs and a structure of production which would simply not enable them, without the existing special arrangements, to compete in world markets. However, such countries themselves would greatly benefit from the new patterns we are talking about because their production would become more efficient and, except in certain very limited cases for which special arrangements might have to be made, they would be able to move into additional lines of production.

These are the seven guidelines that might be considered for adoption as a supplement to the ministerial Declaration of last November.

Finally, I come to the possible courses of action which the Group might consider adopting. These are the following:

(i) the possibility of adopting at the present meeting, or as soon as possible, a further set of guidelines supplementing the December Declaration;

(ii) the implementation of the existing and any further principles in respect of those commodities, namely coffee and cocoa, where very specific work is already being done. I assume that all countries represented at this meeting are likely to participate in the United Nations Negotiating Conference on Coffee. These countries have specific courses of action to follow - they relate to measures to increase demand, to reduce discrimination against certain coffee
producers, to keep production down to levels which can reasonably be consumed, and to assist the diversification of the economies of less-developed countries. Such provisions must be written into the Coffee Agreement and the same principles should be applied and be contained within the framework of the proposed cocoa agreement.

(iii) The Group might consider setting up a Sub-Group to concern itself with the problems of the other tropical products under consideration, or for that matter any tropical product, if considered necessary. In this connexion it would appear to be desirable to establish some order of priority. Perhaps bananas deserve more urgent attention than some of the other products. Such a Sub-Group would make recommendations to this Group on how specifically to implement the ministerial Declaration and any new general guidelines that might be adopted at the present meeting of the Group.

(iv) Decisions might be taken to take certain steps relating to overall courses of action. The United Kingdom proposal for duty-free entry for certain products, the Nigerian proposal and the United States proposal are cases in point. The question to be answered is whether something can be done in the Group to implement the objective of achieving duty-free entry and removing these products from the burden of revenue duties and fiscal charges. This is a field where specific action is very much needed.

(v) An attempt should be made to develop some mechanism for linking up what we are doing in the trade field with the important work on economic development going on in certain other bodies. For example, it might be decided that the Group, or a Sub-Group, should work closely with certain other bodies, whether this be the Development Assistance Committee of the OECD or any other body specifically set up to do work on economic development and assistance. If we are to be successful, this co-operation is absolutely necessary. The exact methods to achieve a link-up would need to be examined. But certainly, thereafter such proposals as the United States made with the Resources Stabilization Fund idea of last year might be explored. The United States never thought that this was the only idea worth considering. It did feel, and continued to feel, that there is perhaps a possibility during the interim period while special arrangements continue in existence and while these are gradually being replaced by some other benefits, that there might be worldwide commitments by all consuming countries as regards the level of earnings of the countries which might be disadvantaged by the removal of the special arrangements. A similar possibility might be examined in relation to the volume of exports of particular commodities. These are ways in which aid, economic development, and appropriate trade patterns might be successfully linked.
In conclusion, I would say that my delegation is entirely open-minded as to which courses of action we decide on here and on how we proceed in their implementation, but we are not open-minded on the need for action. Action rather than words is needed, and my delegation expects and hopes that out of this Group real action will emerge.