SPECIAL GROUP ON TRADE IN TROPICAL PRODUCTS

Draft Record of Discussions and Conclusions Reached at
the Meeting held from 4-8 June 1962

A. INTRODUCTION

1. The Special Group was established by the Council in February 1962 following
a Recommendation of Committee III (L/1732) that such a group should be established.

2. The terms of reference of the Special Group are as follows:

"Taking into account all factors bearing on present and future problems
in international trade in tropical products (cocoa, coffee, tea, vegetable
seeds and oils and tropical timber), to consider ways of overcoming
difficulties confronting less-developed countries exporting these products
and to make appropriate proposals bearing in mind, among other things, the
Conclusions of the ministerial meeting and the Decision of 7 December 1961".

3. The following countries participated as members of the Group:

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<th>Brazil</th>
<th>Indonesia</th>
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<tr>
<td>Ceylon</td>
<td>Nigeria</td>
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<td>EEC</td>
<td>Sweden</td>
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<td>Ghana</td>
<td>United Kingdom</td>
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<td>India</td>
<td>United States</td>
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4. The following countries were represented by observers:

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<th>Australia</th>
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<td>Canada</td>
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<td>Yugoslavia</td>
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<td>Denmark</td>
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<td>Finland</td>
<td>Switzerland</td>
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5. The following organizations were also represented:

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<th>FAO</th>
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<tr>
<td>Organization of American States</td>
<td>United Nations</td>
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6. Mr. E. Wyndham White, Executive Secretary, was Chairman of the meeting.

7. The Chairman recalled that the Council had endorsed the proposal of
Committee III that the States associated with the EEC should be invited
to participate in the Group's work and requested him to consult with these
States concerning their representation. He had accordingly visited
Brussels and had consulted with representatives of the associated States.
These representatives had stressed their interest in the meeting of the Group. They recognized that it would be preferable if solutions to the problems involved could be found on a world-wide rather than on a regional basis. Unfortunately, the timing of important meetings in Brussels in connexion with the extension of the association arrangements made it impossible for their governments, in view of the shortage of personnel, to be represented at the Group's meeting. They were anxious that this reason for their absence from the Group's meeting should be fully understood.

B. GENERAL EXCHANGE OF VIEWS

8. The Group had before it the ministerial Conclusions and Declaration on the Promotion of the Trade of Less-developed Countries of 30 November 1961 and noted the importance and relevance of the commitments undertaken by governments in the Declaration. The Group also had before it the specific proposal put forward by Nigeria relating to duty-free entry for tropical products (L/1608) and noted that most Ministers at their meeting in November 1961 were of the view that this proposal should be given careful consideration.

9. It was agreed that there was no need for the Group to discuss in any detail the facts of the situation with regard to the situation of trade in tropical products. The facts were already well known and ample documentation was available as a result of the work of Committee III, the secretariat and of other international bodies. Over a long period Committee III had made detailed studies of the obstacles impeding the expansion of exports of the tropical products under consideration.

10. The representative of the United States, having briefly described the situation in regard to coffee, cocoa, bananas, oilseeds and vegetable oils, and tropical timber, gave his delegation's views on the major problems which arose and outlined possible guidelines and courses of action which the Group might consider adopting. The full text of the statement made by the United States representative is reproduced in the Annex of this record.

11. Several members commented on the United States statement. The representative of Ceylon stressed the need not to underestimate the difficulties inherent in the present situation and future prospects for tea. Ceylon did not wish the situation in regard to tea to deteriorate and become like that which at present existed, for example, in the case of coffee. Steps should be taken to prevent a really serious situation arising. Continuing, the representative of Ceylon said that one further consideration should be added to those put forward by the representative of the United States. This was the question of tariff differentiation in Europe as between raw materials and semi-processed products. This differentiation should be progressively removed in the interests of the economic development of the less-developed countries.

As the statement was distributed to members of the Group in document Spec(62)152 it has not been annexed to this draft record.
12. Commenting on the possible guidelines proposed by the United States representative, the representative of Brazil said that, while he entirely agreed that the approaches to be adopted should be world-wide in character, it should be recognized that some arrangements intended ultimately to have a world-wide scope could with advantage begin on a regional basis. The proposed compensatory financing scheme for Latin America, which arose out of the special ministerial meeting of the Inter-American Economic and Social Council at Punta del Este in August 1961, was an example of this.

13. The representative of Brazil pointed out that the comments he had just made applied equally to the question of the multilateral approach.

14. Strongly supporting the non-discriminatory approach advocated in the third of the proposed guidelines, the representative of Brazil said that his Government's efforts to obtain relief from the adverse effects of the discrimination resulting from the Treaty of Rome were well-known.

15. The spokesman for the European Economic Community pointed out that the difficulties which existed in international commodity markets could not be said to have resulted from the establishment of the Community; these difficulties had existed before the Community came into being. As regards the present meeting of the Group, it was unfortunate that this was being held at the same time as discussions of fundamental importance were going on elsewhere between the Community and the United Kingdom and between the Community and the associated States. As it was not possible to anticipate the outcome of these discussions, certain essential elements necessary for a full discussion by the Group were inevitably lacking. Moreover, it was not possible to analyse satisfactorily the problems before the Group without the participation of the associated States. The Community hoped that these States would be able to participate in the Group's work in the near future and help in the search for solutions to these problems.

16. The spokesman for the Community then commented on the possible guidelines proposed by the representative of the United States. With reference to the multilateral or world-wide approach, as opposed to the bilateral or regional approach, he said it was certainly to be hoped that, in the not too distant future, the approach to the problems involved would be on a world-wide basis. The fact remained, however, that the efforts so far made in this direction had only had very limited results. The gap in world-wide action in the face of the deteriorating situation in international commodity markets, taken together with historical factors, went a long way towards explaining the existing organization of the markets. Apart from these considerations, regionalism had its raison d'être and its value and this fact should not be ignored. It was not an end in itself but it was a valuable step forward while world-wide solutions were being sought.

17. In connexion with the problems of non-discrimination and of internal taxes referred to in the third and fourth of the proposed guidelines, the spokesman for the Community said he would simply draw attention to the ministerial Declaration, which contained specific paragraphs on these problems. He added
that, under the Treaty of Rome, national fiscal policies remained within the sovereignty of each member State and the Ministers concerned were giving attention to this problem. As spokesman for the Community as a whole he could not, therefore, deal with the question of internal taxes although he could say that, in the view of the Community, this matter was given too much weight when seen against the background of the overall problems that arose in connexion with the organization of commodity markets.

18. The spokesman for the Community said that the Community fully supported the commodity-by-commodity approach advocated in the proposed guidelines. It was to be hoped that, in addition to the negotiation of further international commodity agreements, there would be increased participation in certain of the existing agreements.

19. As regards supplementing the commodity-by-commodity approach by a more general approach, the spokesman for the Community stressed that compensatory financing, while important, should only be considered a short-term palliative. In the long term, the problems were those of market organization and stability in the context of the economic development of less-developed countries.

20. With reference to the final guideline proposed by the United States representative, the representative of the Community said that the Community fully agreed that the problems of commodity trade were only one aspect of the overall problems that faced less-developed countries in their economic development. The problems that arose in commodity trade should, therefore, be seen within this broader framework.

21. The representative of the Community then commented on the possible courses of action suggested by the United States representative in his statement.

22. In the first place, he said, the Community doubted the advisability of trying to improve on or supplement the principles contained in the ministerial Declaration. There would appear to be no good reason for doing this. As regards the second proposed course of action, it could surely be assumed that governments participating in a negotiating conference on a particular commodity would be fully alive to their obligations, including those under the ministerial Declaration, and to the need to interpret these constructively and with flexibility in the interests of reaching agreement. Thirdly, if it were considered necessary to establish a Sub-Group to examine the problems of the tropical products under discussion, other than coffee and cocoa, consideration would have to be given to the question of the participation of experts, not only from the States associated with the Community, but also perhaps from countries which were not contracting parties to GATT.

23. Commenting on the fourth course of action proposed by the United States representative, the spokesman for the Community referred to what he had said earlier on the subject of duty-free entry. He added that the difficulties involved were illustrated, for example, by the terms in which the recent trade proposals of President Kennedy relevant to this problem had been formulated. In conclusion, the spokesman for the Community expressed the Community’s warm support for the fifth course of action proposed by the United States representative, namely the development of some mechanism for linking up what was being done in the trade field with the work being done in connexion with economic development in certain other bodies.
24. A number of members stressed the need for urgent action to implement the ministerial Declaration, which had been adopted by Ministers over six months ago. The view was expressed that the Group should proceed, in accordance with the Ministers' Conclusions (L/165, page 4), "to establish specific programmes of action, and where feasible target terminal dates, for progressive reduction and elimination of barriers to the exports of less-developed countries". A proposal to achieve this aim was submitted to the Group by Brazil and Nigeria (Spec(62)154).

25. The representative of Nigeria, while recognizing the value of the guidelines proposed by the United States representative, expressed the fear that the consideration of more general ideas could cause attention to be diverted from the Nigerian proposal for duty-free entry. This was a concrete proposal which had been put forward before the ministerial meeting. It had largely motivated the establishment of the Group and should be given priority in the Group's work. Several members supported the view that consideration of the Nigerian proposal should be given priority.

26. Following this general exchange of views, the Group proceeded to consider specific proposals, beginning with the Nigerian proposal (L/1608) for duty-free entry.

C. DUTY-FREE ENTRY FOR TROPICAL PRODUCTS

27. The representative of Brazil strongly supported the Nigerian proposal. He pointed out that tariffs on the products under consideration impeded consumption and the expansion of trade. Less-developed countries needed increased export earnings to finance their imports of capital goods. While, in the short term, financial aid was a welcome palliative, it was desirable that these imports of capital goods should be financed through export earnings. By and large, the products concerned were not produced in the important consuming countries. There was, therefore, no question of protecting domestic production; on the contrary, the elimination of duties should benefit consumers.

28. It was also pointed out by the representative of Brazil that less-developed countries which were not associated States of the EEC were confronted, not only by serious trade barriers, but also by discrimination exercised in favour of the associated States by the EEC. It was generally accepted that tariff discrimination on tropical products was trade-diverting and not trade-creating. The difficulties facing the associated States and their need for increased export earnings was fully recognized, but trade discrimination was not the correct way of assisting them. There were other forms of assistance which could more desirably be used and which would not impede the aim of increased trade on a world-wide basis. Brazil wished the Group to recommend acceptance of the Nigerian proposal. If the Nigerian proposal could not immediately be accepted, the least that should be done would be to look upon the duties concerned as essentially temporary and transitional in character, to draw up a time-table for their elimination and, in the meanwhile, to give financial compensation to those less-developed countries adversely affected by the present trade discrimination.
29. The representative of India also stressed the importance of the Nigerian proposal. Duty-free entry would permit all producers of tropical products to receive the same tariff treatment. If, in the common interest, it was agreed that all tropical products should be accorded duty-free entry, India might be prepared to consider giving up the Commonwealth preferences from which it at present benefited. Should, however, duty-free entry not be agreed at present, existing preferences should not be disturbed.

30. In the view of the representative of Indonesia, it would benefit both the associated States of the EEC and other less-developed countries if their tropical products entered duty-free without any discrimination. The Group should concentrate its attention on this question of duty-free entry. Indonesia recognized the difficulties of the associated States and their need to expand their export income but, in Indonesia's view, the discriminatory measures from which these States at present benefited were contrary to the provisions of the GATT.

31. The representative of Ghana also considered that the main problem was the question of duty-free entry. When considering the possibilities that arose in this connexion from the United States trade legislation, it was to be hoped that the EEC would agree to joint action for duty-free entry, not only in the case of those products on which the United States at present applied a duty but also in the case of those products which entered the United States duty free.

32. Representatives of producing countries asked whether the industrialized countries would at least accept the principle of duty-free entry. It was recognized that there were practical problems, such as the question of compensation during a transitional period for those less-developed countries which would be giving up the preferences, but these could be discussed once the principle of duty-free entry had been accepted.

33. The representative of the United States said that his delegation fully supported the Nigerian proposal and, if the new United States trade legislation were approved, his Government would expect to implement the proposal in cooperation with the other industrialized countries.

34. The representative of Sweden expressed his Government's willingness to discuss at once multilateral arrangements for the elimination of duties on tropical products. His delegation would like to see specific action and an agreed timetable for the elimination of duties.

35. The spokesman for the European Economic Community said he had already referred to the negotiations going on between the Community and the associated States. While these negotiations were in progress, and as representatives of the States which benefited from the preferences were not present at the Group's meeting to express their opinions, he was not in a position to comment on the question of the Community's attitude to the principle of duty-free entry. The problem of preferences should be seen in the regional context and against a historical background. As he had already pointed out, there was a need for the organization of markets on a world scale, so as to enable the economies of those countries at present benefiting from preferences to achieve a balanced development without those preferences.
36. Some members of the Group drew attention to the fact that certain arrangements were under contemplation or negotiation by the EEC which could result in the establishment of preferential arrangements beyond those contained in the 1947 settlement upon which the GATT is based. If such arrangements were implemented and there was delay in implementing the Nigerian proposal there was, in the view of these members, real risk of damage to non-preferential suppliers and, as these members had been willing to study the problems of preferential suppliers which might result from the implementation of the Nigerian proposals, it was reasonable that consideration should also be given to their problems.

37. Without going into the legal problems which obviously do not fall within the terms of reference of the Special Group, the representatives of the EEC pointed out that, in their opinion, it was by no means certain that the agreements now under study or being negotiated would have a strong influence on trade patterns in the tropical products with which the Group is dealing. The possible effects of such agreements could be realistically appreciated in fact - and this in the light of the situation on the world markets for the products concerned - only when all the component elements of such agreements were known, in particular the nature of the products referred to, the degree of preferential margins and their geographical scope.

D. REVENUE DUTIES AND FISCAL CHARGES

38. The Group noted that the Nigerian proposal in document L/1608 also pressed for the removal of internal fiscal charges. It further noted that, whereas most Ministers had agreed that the question of duty-free entry should be given careful consideration, all Ministers had accepted that part of the ministerial Declaration of 30 November relating to the removal of revenue duties and fiscal charges. In a reference to the report of Committee III on its meeting in May 1962 (L/1768), the Group welcomed the action taken by the United Kingdom to eliminate the fiscal element in the United Kingdom customs tariffs on coffee and cocoa and the action proposed by Italy involving a 50 per cent reduction in the present consumption tax on cocoa and cocoa products. The Group felt that further studies were not called for. What was required was the implementation of the relevant part of the ministerial Declaration and, if more progress in this direction was to be made, further consideration of the matter at the ministerial level was necessary.

39. It was pointed out in the Group that there had recently been various suggestions relating to an increase in financial assistance to less-developed countries. This was bound to represent a major effort on the part of the donor governments concerned and it was paradoxical to draw on fiscal resources to help less-developed countries and at the same time to refuse to remove trade obstacles of a fiscal character. The liberalization of trade was a much more direct form of aid than any other.

E. ESTABLISHMENT OF SUB-GROUP

40. It was suggested in the Group that a Sub-Group should be set up to examine certain aspects of the problems that had been discussed. Some members, while agreeing to the establishment of a Sub-Group, stressed the need for the Sub-Group's terms of reference to be such that its work would represent a definite move in the direction of specific action.

1The text of this paragraph was provided by the EEC.
F. CONCLUSIONS

41. At the end of its discussions the Group adopted the following conclusions:

I. GENERAL

42. Most members were of the view that the Nigerian proposal relating to duty-free entry for tropical products (L/1608) should be implemented at an early date. In implementing this proposal, account should be taken of the situation of those countries which at present enjoy preferential access to markets and, concurrently with the move towards duty-free entry, action should be considered to meet their adjustment problems as well as the problems of those countries which are adversely affected by the continuation of the preferences during the transitional period, in order to maintain and accelerate the economic development of both groups of countries.

43. Other members of the Group pointed out that, while most Ministers had agreed that the Nigerian proposal should be given careful consideration, their Ministers had taken no decision on the principle of duty-free entry and it was the view of these members that further examination of the problems involved would be a prerequisite to their being able to come to any conclusion in this matter.

44. Having regard to the considerations set out in paragraphs 42 and 43 above, the Group agreed to establish a Sub-Group with the terms of reference set out below.

II. ESTABLISHMENT OF SUB-GROUP

45. The Group decided on the following terms of reference for the Sub-Group, it being understood that the work should relate, on a commodity-by-commodity basis, in the first instance to the following products: cocoa, coffee, tea, vegetable seeds and oils, tropical timber and bananas. The Sub-Group should:

(a) appraise in respect of an illustrative number of developing countries the importance to developing countries of the preferential or other sheltered access they enjoy in certain important markets in the context of their economic needs;

(b) appraise in respect of an illustrative number of developing countries the effects on their trade of the preferential or other sheltered access enjoyed by their competitors;

(c) in case of both (a) and (b) analyse the effects on these countries if arrangements for such preferential access were to be removed;

1The conclusions have already been approved by the Group.
(d) study the position of tropical products (other than coffee and cocoa)\textsuperscript{1} with particular reference to special arrangements affecting trade as well as production and consumption;

(e) consider the problems arising from the existence of protective tariffs and other barriers to trade;

(f) examine all possible ways and means, including the specific proposals and suggestions made by Brazil, Nigeria and the United States in the course of the discussions of the Group, for solving the problems and attenuating the difficulties that may be revealed in the aforementioned studies and propose specific courses of action to this end.

46. The Group requested the Executive Secretary to make arrangements for appropriate collaboration with national experts and with international organizations in support of the activities of the Sub-Group.

47. The Group requested the Executive Secretary to submit a progress report on the work of the Sub-Group to the twentieth session of the CONTRACTING PARTIES and the Sub-Group should submit a report to a meeting of the Special Group in the month of November 1962.

III. IMPACT OF MODIFICATION OF PREFERENTIAL ARRANGEMENTS THROUGH CURRENT NEGOTIATIONS

48. It was agreed that the matters referred to in paragraphs 36 and 37 of the introductory section of this report are included in the terms of reference of the Sub-Group.

IV. REVENUE DUTIES AND FISCAL CHARGES

49. It was pointed out that the Ministers had agreed in their Declaration of 30 November 1961 that the removal or considerable reduction of revenue duties and fiscal charges in industrialized countries would be a useful contribution to the foreign exchange earnings of the less-developed countries. It was also pointed out that Committee III had agreed to consider the proposal for a two-stage reduction of revenue duties and internal taxes on cocoa, tea and coffee in the light of the discussions of this Group.

50. Members of the Group expressed their great disappointment that little progress had been made in the implementation of this part of the ministerial Declaration, the more so as it need not wait on collective action. Little or no progress had been made in some countries and there appeared to be little prospect of substantial progress being made in the near future. Accordingly they can only suggest that the CONTRACTING PARTIES should recommend further

\textsuperscript{1} See Section V.
discussion of the question at ministerial level at an early date, with a view particularly to considering the difficulties which are delaying the implementation of the ministerial Declaration insofar as it relates to revenue duties and fiscal charges and what steps could be taken to speed up such implementation.

V. INTERNATIONAL COFFEE AND COCOA NEGOTIATIONS

51. The Group considered that the forthcoming negotiations for the conclusion of an international coffee agreement and of an international cocoa agreement afford appropriate occasions for observing the guiding principles embodied in the ministerial Declaration of 30 November 1961 to the fullest extent possible with the object of reducing in the near future obstacles to exports of less-developed countries.