GENERAL AGREEMENT ON
TARIFFS AND TRADE

SPECIAL GROUP ON TRADE IN TROPICAL PRODUCTS

Draft Report of Sub-Group on Meeting held 18-22 March 1963

/COCOA/

(a) Market situation

1. The Sub-Group began its examination of problems affecting cocoa by a general appraisal of the market situation. It was noted that the world cocoa economy had recently entered a phase where supply and demand were in better balance and that, according to an FAO estimate, consumption in 1963 would be likely to exceed current production for the first time in five years. This improvement had also led to some firming of prices but, in view of the wide fluctuations usually registered for cocoa, it was as yet too early to judge the significance of this movement ever in the short run. As regards the long-term outlook it was recognized that a high degree of uncertainty was involved in any estimate of production. In the view of some members of the Sub-Group, the FAO projections might tend to underestimate the future volume of production. It was agreed, however, that advantage should be taken of the present situation which provided a good starting point for the negotiation of an international agreement on cocoa.

(b) Trade problems

2. Several representatives stressed the prime importance of increasing the export earnings of the producing countries. From the point of view of these countries the level of prices was all-important. This had been clearly brought out by recent developments when the exporting countries had produced and sold more, but had earned less, because of a persistent decline in prices. It was important that there should be both some increase in price and future price stability.
3. It was recognized in the Sub-Group that action on the problems of trade in cocoa would have to take account of several elements. It had to be envisaged that the aim to achieve a higher, stable world price might have to be accompanied by some control insofar as production and supply were concerned. The producing countries in the Sub-Group recognized the need for this possible control. It was stressed however that, as a counterpart to this, the importing countries must do everything possible to maximize consumption and, with this end in view, eliminate the existing barriers which impeded increased consumption.

4. It was noted in the Sub-Group that the internal taxes applied in some countries were a more important curb on consumption than import duties. There was a difference of view, however, as to the extent of the increase in consumption that would result from the removal of internal taxes. Some members of the Sub-Group considered that the increase would be significant, others considered that the effect would not be important. It was pointed out that any attempt at evaluating the effect on consumption of the removal of barriers to trade was made difficult by the fact that the price paid by the final consumer of cocoa manufactures bore little or no relation to the price of raw cocoa. Nevertheless there was agreement in the Sub-Group that the removal of internal taxes would result in an increase in consumption.

5. It was also pointed out by representatives of producing countries that the present tax structure in major consuming countries favoured the use of substitutes and of other ingredients, such as fruit, nuts, milk, etc., at the expense of cocoa.

6. A further point made by several representatives was that the present position, whereby certain industrialized countries taxed products imported from less-developed countries which were not produced in the industrialized countries concerned was difficult to defend particularly as such taxes only play a minor fiscal rôle.
7. As regards preferential arrangements, the Sub-Group noted from the secretariat study that there was no evidence that exports from suppliers enjoying a preference had occurred at higher prices in their sheltered markets than cocoa imported into those markets from other countries. The Sub-Group also noted the view expressed in the secretariat paper that the existence of preferences had not so far significantly affected the trade pattern in cocoa. The Sub-Group concurred with these views. The opinion was expressed that, as the preferences did not have important effects, it would be reasonable to eliminate them at an early date.

8. Nevertheless, certain representatives expressed concern about the extension of preferential treatment that would result for the States associated with the EEC from the coming into effect of the common external tariff. The view was expressed that the effects of preferences largely depended on whether the supplies offered by countries benefiting from the preferences were greater, or smaller, than the requirements of the sheltered market. The fact that the associated States would in the future receive preferential treatment throughout the EEC and that available supplies from these States would be smaller than the total requirements of the Community could result in some price advantage for the associated States.

9. It was also pointed out that, whatever the effects of preferences, it was undesirable that some less-developed countries should have this advantage and that others should not. It would be much preferable for all the less-developed countries to be on an equal footing and to participate in an organized world market with the assurance of higher price levels.

10. It was recognized in the Sub-Group however, that if an international cocoa agreement came into existence where there were export quotas and a recognized world price any importance which preferences might have would be greatly diminished. The consensus of opinion was that the important aspects of the problems that arise in trade in cocoa were not preferences but the question of prices, the expansion of consumption and the production of semi-manufactures by the producing countries.
11. As regards the question of semi-manufactures, several representatives pointed out that, while duties and import restrictions on cocoa beans did not present serious difficulties to trade, duties on semi-products (exported also by cocoa-producing countries) were in several countries disproportionately high. This afforded significant protection to the domestic processing industry. It was recognized that the prices of the semi-processed products were substantially higher than that of cocoa beans indicating that the raw cocoa component in the costs of processing was low.

12. Several representatives pointed to the need for less-developed countries to be able to undertake some processing of their raw materials as a means of diversifying their economies and augmenting their export earnings. The view was expressed that the industrialized countries should concentrate on the production of more refined products and thus leave the way open for the less-developed countries to process their raw materials and to be able to find markets for their goods. In this connexion, however, it was pointed out that the processing of cocoa was a capital intensive and not a labour intensive industry.

13. The representative of the United States put forward certain specific proposals concerning the removal of barriers to trade. He pointed out that there were three possibilities as far as his Government was concerned. First, in terms of the United States Trade Expansion Act, the Administration was empowered to remove completely duties of 5 per cent or less over a period of five years. Alternatively the Administration had the authority to remove, without the five-year period requirement, duties on tropical products not produced in significant quantities domestically, provided that the EEC would do the same; no reciprocity would be expected from less-developed countries. A third way of dealing with the problem would be in the negotiations for an international cocoa agreement. There would be a schedule to the agreement providing that all the cocoa importing countries contracting parties to the GATT would remove all duties and fiscal charges on cocoa and cocoa products within a fixed period of time. The United States Government would probably be able to achieve the necessary congressional approval for such an international cocoa agreement considerably before the end of 1964, thus lessening the time elapsing before cocoa-producing countries could receive tangible benefits.
14. The representative of the EEC said that, while it would be appreciated that it was not possible to take a definite stand at this stage, the Community recognized the realistic nature of the United States proposal. The proposal would be examined in a positive spirit by the Community which would take into account at the same time the interests of third countries and those of the States associated with the Community. Regarding duties on cocoa beans, the representative stated that the 40 per cent reduction already undertaken by the EEC was an indication of its willingness to meet the needs of third countries.

(c) Conclusions

15. The general consensus in the Sub-Group, following the discussion of the market and trade situation, may be summarized as follows:

(i) The Sub-Group recognized that any action taken to deal with the problems that arise in trade in cocoa would have to embrace several elements, some of which could appropriately be dealt with in the negotiations for an international cocoa agreement.

(ii) There was agreement in the Sub-Group that the important thing was to increase the export earnings of the producing countries so as to facilitate their economic development.

(iii) Price declines had in recent years had the effect of decreasing the export earnings of producing countries despite the fact that they had exported increased quantities. The establishment of a satisfactory, equitable price level would, therefore, have to be a prime objective of any international arrangements made concerning trade in cocoa.

(iv) The Sub-Group recognized that a price policy of this sort might require producing countries to exercise control as regards levels of production and supply. At the same time any such control of production and supply must be counter-balanced by efforts to secure increased cocoa consumption in importing countries. In this connexion, it was
generally agreed that, while the effect of import duties was very modest, the removal of internal taxes would have the effect of increasing consumption. There was a difference of view within the Sub-Group as to the extent of this increase.

(v) The consensus of view in the Sub-Group was that preferential arrangements had, in the past, only given rise to problems of a marginal character. Concern was, however, expressed by some members as regards the effects when the common external tariff of the EEC came fully into effect. While it was recognized that the EEC had already made a considerable effort through the reduction of the common external tariff by 40 per cent the hope was expressed that further progress would be possible. It was agreed that if an international cocoa agreement was formulated on the right lines, preferences would lose the little importance they at present had.

(vi) The Sub-Group agreed that the question of access to the developed countries for semi-manufactures produced in less-developed countries was an important problem needing serious attention. It was recognized that the development of semi-processing industries in the producing countries was an obvious way of enabling these countries to increase their export earnings and to diversify their economies. The Sub-Group agreed that this was an important question which could appropriately be dealt with in the forthcoming GATT Trade Negotiations.