GENERAL AGREEMENT ON TARIFFS AND TRADE

SPECIAL GROUP ON TRADE IN TROPICAL PRODUCTS

Draft Report on the Meeting of the Sub-Group
Established by the Special Group Held from
18-22 March 1963

I. INTRODUCTION

1. The Sub-Group met from 18-22 March 1963 under the chairmanship of the Deputy Executive Secretary.

2. Representatives of the following countries, which are members of the Sub-Group, participated in the meeting:

   Brazil
   Ceylon
   EEC
   Ghana
   India
   Indonesia
   Nigeria
   Sweden
   United Kingdom
   United States

3. The following countries, which are not contracting parties to the GATT and which had been invited to participate, were represented at the meeting:

   Colombia
   Congo (Leopoldville)
   Costa Rica
   Ecuador
   Honduras
   Ivory Coast
   Madagascar
   Mali
   Niger
   Panama
   Senegal

4. The following countries were represented by observers:

   Australia
   Austria
   Canada
   Cuba
   Czechoslovakia
   Denmark
   Israel
   Japan
   New Zealand
   Norway
   Peru
   Portugal
   Spain
   Turkey
   Yugoslavia

5. The following were also represented:

   European Free Trade Association
   Food and Agriculture Organization
   Organisation for Economic Co-operation and Development
   Organization of American States.
6. At the previous meeting of the Sub-Group held from 3-6 December 1962 it was agreed that the secretariat should undertake a certain programme of work in connexion with the Sub-Group's terms of reference. The outline of this work was set out in document L/1946.

7. The documents subsequently prepared by the secretariat in accordance with the agreed work programme constituted the background against which the discussions of the Sub-Group at the present meeting took place. The documents concerned were those on individual commodities namely coffee, bananas, cocoa and tropical oils and oilseeds (W(63)1 to 5) and the individual country studies on Ivory Coast, Nigeria, Senegal and Somalia (W(63)6 to 9). The Sub-Group also discussed tea and tropical timber at its meeting.

8. Although the Sub-Group as a whole was unable at that stage to comment on the proposal of Brazil and Nigeria contained in document Spec(62)154 concerning the granting of compensatory finance for development, the representative of Brazil suggested that there should be further consideration of the proposal with particular reference to the principles involved. These principles, as outlined by the representative of Brazil were, first, that countries adversely affected by the existence of preferences should receive compensation in the form of financial aid for development; second, as had already been accepted in principle by the Special Group on Trade in Tropical Products, compensatory aid should be accorded to those countries suffering detriment as a result of the removal of preferences; and third, that taxes or duties levied on tropical products should be specifically earmarked for development aid to those countries producing the product on which such taxes or duties were levied.
II. COCOA

(a) Market situation

9. The Sub-Group, which had before it the secretariat paper on cocoa distributed in document W(63)3, 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. This development had led to a certain strengthening of prices but, in view of the wide fluctuations to which cocoa prices were subject, it was as yet too early to judge its significance even in the short term. As regards the longer-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 of relative stability which provided a good starting point for the negotiation of an international agreement on cocoa.

(b) Trade problems

10. 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, as had been clearly brought out by developments during recent years when the exporting countries had produced and sold more, but had earned less, because of a substantial decline in prices. It was important, in the future, that there should be increased price stability, at remunerative and equitable levels.
11. 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 stable world prices at a somewhat higher level than might result from free market forces would necessitate some control in so far 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 the importing countries must, for their part do everything possible to maximize consumption by eliminating the existing barriers which impeded increased consumption.

12. 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 while others considered that the effect would not be important. It war pointed out that any attempt at evaluating the effect on consumption of the removal of these internal taxes was made difficult by the fact that the price paid by the final consumer of cocoa manufactures bore little relation to the price of raw cocoa, particularly in the short run. Nevertheless there was agreement in the Sub-Group that the removal of internal taxes would result in an increase in consumption.

13. It was also pointed out by representatives of producing countries that the present tax structure in some major consuming countries favoured the use of cocoa substitutes and of other ingredients, such as fruit, nuts, milk, etc., at the expense of cocoa in the manufacture of chocolate and, further, in the case of synthetics, was to the disadvantage of the consumer.

14. A further point made by several representatives was that the present position, whereby certain industrialized countries collected revenue on products imported from less-developed countries which were not produced in the industrialized countries concerned was difficult to defend, particularly as such duties and taxes only played a minor fiscal rôle.
15. 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 in these views. The opinion was expressed by certain representatives that, as the preferences did not have important effects, it would be reasonable to eliminate them at an early date.

16. Nevertheless, certain representatives expressed concern about the extension of preferential treatment in favour of the States associated with the EEC that would result from the coming into effect of the common external tariff. This, these representatives maintained, could have a significant trade diversion effect, particularly in the case of semi-manufactures where the preferential margin would be high. 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.

17. Some representatives 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 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 stable price levels.
18. It was recognized in the Sub-Group however, that an international cocoa agreement could be so drafted and contain such provisions e.g. export quotas, a recognized price range, etc., that the importance of preferences would be greatly diminished because the existence of quotas would eliminate any stimulus to production by the sheltered suppliers that might otherwise result from the preference. The consensus of opinion was that the most important problems in connexion with the trade in cocoa beans were not preferences but the question of prices and the expansion of consumption.

19. As regards the question of processed products, 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 in these countries. It was recognized that the prices of the processed products were substantially higher than that of cocoa beans indicating that the raw cocoa component in the sale price of these products was low.

20. 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 sophisticated products and thus leave the way open for the less-developed countries to process their raw materials and 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, and that some countries that already had low duties or, in some cases, duty-free access for these products from large preferential suppliers did not in fact import large quantities of these products, which would seem to indicate that their domestic processing industries were competitive.
21. 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 main possibilities as far as his Government was concerned, two of which would relate to the hoped for general trade negotiations. First, in terms of the United States Trade Expansion Act, the Administration was empowered to negotiate the complete elimination of 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 should be a schedule to the agreement providing that all the cocoa importing countries would progressively 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 seek 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. Such specificity regarding removal of consumption restraints, in the opinion of the United States had to be an integral part of an equitable international cocoa agreement.

22. The representative of the EEC, while recognizing in the United States suggestions a realistic orientation, said it would be appreciated that it was not possible for the Community to take a definite stand at this stage. The suggestions 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.
(c) **Conclusions**

23. 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 aim was to increase the export earnings of the producing countries so as to facilitate their economic development while providing adequate supplies to consumers at equitable prices.

(iii) Price falls 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 necessitate the conclusion of an international cocoa agreement.

(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 trade restraining effect of low import duties on cocoa beans was very modest, the removal of internal taxes could have the effect of increasing consumption. There was a difference of view within the Sub-Group as to the extent of the increase that might be expected.

(v) The consensus 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
these members recognized that the EEC proposed to make a considerable effort through the reduction of the common external tariff by 40 per cent, they expressed the need for further progress. It was agreed that if an international cocoa agreement was formulated on the right lines, preferences would lose most of the little importance they at present possessed.

(vi) The Sub-Group agreed that the question of access to the developed countries for processed cocoa products manufactured 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 could offer a way of enabling these countries to increase their export earnings and to diversify their economies. At present the high level of duties on semi-manufactures tended to discourage the development of such industries. The Sub-Group agreed that, if it unfortunately proved to be impossible to negotiate an international cocoa agreement providing for the progressive elimination of taxes and duties on processed cocoa products as well as on raw cocoa, these important questions could appropriately be dealt with in the forthcoming GATT Trade Negotiations.
III. TROPICAL OILSEEDS AND OILS

(a) Market situation

24. The Sub-Group reviewed a number of principal structural changes in the world's fats and oil economy, which were found to have affected the market for tropical oils and oilseeds (groundnuts and oils, coconut palm and oil palm products). It was noted that production of tropical oilseeds and oils had grown less than production of oils and fats produced mainly in the temperate zones, where the rise in particular in soya beans and certain animal fats was spectacular. In this connexion the Sub-Group drew attention to the relation between the increasing output and agricultural policies practised in the temperate zones. On the consumption side the main long-term factor at work seemed to have been the substitution in end use of the tropical oils for temperate zone oils both of vegetable and animal (including marine) origin. While relative prices play a major role in this substitution process, demand also depends greatly on the price that crushers can get for oil cake. In particular, the sharp rise in consumption of soya beans in Western Europe was related to growing requirements for these oil cakes in animal production, while the expanding use of animal fats in the industrial areas was related to the rapid rise in meat production. It was noted that as a result of these trends in production and consumption the share of tropical oils in total fat consumption had tended to decline.

25. These factors were found to have influenced strongly the pattern of international trade in fats and oils. North America had since pre war changed over from a net importing to a net exporting position, while Western Europe, where production rose less than half as much as in North America, grew in importance as a deficit area. However, within widening European requirements imports of temperate zone oilseeds and oils rose considerably more than imports of tropical products. The total volume of temperate zone oilseeds and oils traded internationally (in particular of soya beans and tallow) expanded strongly, while those of the tropical products rose only moderately, thanks entirely to an increase in oils, as trade in tropical oilseeds declined.
26. While observing that the market for tropical oils had narrowed, the Sub-Group noted the high degree of dependence on earnings from these products, in a number of countries. Several producing countries planned an expansion in oilseed crushing with a view to diversifying their economies. Representatives of these countries expressed concern at the growing tendency for substitution and replacement of tropical oils and seeds and in their opinion this was a more serious threat to their exports than restrictions on trade.

27. Representatives of tropical countries stressed the fact that fats and oil producing countries in temperate zones were generally not dependent to a significant degree on receipts from exports of these products. The position of the United States merited particular attention; while fats and oils exports were obliged to be of only a marginal importance, the country accounted in 1961 for over one quarter of the volume of world exports.

28. The Sub-Group noted that in the field of tropical oils and seeds preferential arrangements were more widely applied than to the other groups of tropical products examined by the Sub-Group. Several members stressed the often beneficial effects of such preferential systems. The arrangements had protected the markets concerned from too great an anarchy and had contributed to the improvement of their marketing systems. A suppression of this protection at the present stage would, in the view of these members, highly prejudice the less-developed countries concerned through the decrease in export earnings and the consequential fall in imports necessary for their further development.

29. The Sub-Group recognized that the existence of preferential outlets, even if the preferences had no noticeable price effect or only a slight overall increasing effect on export prices, had contributed to the economic progress of some less-developed countries. Therefore, if a dismantlement of such preferences could be considered at all, this would have to be accompanied by appropriate safeguards for exporting less-developed countries.
30. On the other hand, members of the Sub-Group and in particular representatives of countries not benefiting from preferential outlets felt that they were entitled to expect that the present preferential arrangements were not being extended or intensified. In this connexion they appealed to the European Economic Community that everything possible should be done in the near future in working out the relationship with the Associated African States and Madagascar to place the non-sheltered supplying less-developed countries on an equal footing with the sheltered countries. They felt that a satisfactory solution had to be found which would be beneficial to all tropical oilseeds and oils supplying less-developed countries, and not only to some of them, while possibly prejudicing others, who had important traditional markets in some of the EEC member States.

31. Some representatives thought that as many less-developed countries have a deficit in fats and oils, it might be possible to expand trade in tropical fats among such countries within a single region as well as between regions. As regards the system of marketing, it was pointed out that there might be scope for increased co-operation on a regional basis in this field, as exemplified by the recent discussions on the marketing of groundnuts initiated by countries in West Africa.¹

32. Certain members of the Sub-Group expressed the view that the existence of preferences, provided they were not intensified, did not constitute the main problem confronting less-developed countries in their efforts to maintain and increase export earnings from tropical oils and seeds. They referred to the post-war developments, brought out in the secretariat's paper, and they expressed their concern about the growing proportion of international trade

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¹A meeting of the principal groundnut producing countries in October 1962 resolved to recommend the establishment of an African Groundnut Council. The Conference emphasized the necessity for African groundnut exporting countries to adopt a co-ordinated policy if producers' prices were to be kept at reasonable levels, and if groundnuts were to maintain their share of the world market in the face of increasing competition from other oils and fats, notably soyabean and oils.
made up by soyabean and soyabean oil and by animal fats, mainly lard and tallow. They referred to the expectations expressed in the secretariat's paper that this proportion would continue to grow to the detriment of tropical oils and seeds. They noted further that lard and tallow, and fish oils, and to a certain extent also soyabean oil were by-products, which made them extremely competitive in price with tropical oils and seeds. They repeated that exports of those products constituted only a marginal proportion of total exports of the supplying countries (mainly the United States), while on the other hand exports of tropical seeds and oils made up a predominant proportion of the total exports of many less-developed countries. A solution to the problem confronting less-developed countries should, therefore, preferably be sought in efforts to restrain a further increase in production of temperate zone vegetable seeds, mainly soyabean.

33. Other members of the Sub-Group recognized the problem which the increasing production and exports of soyabean and soyabean oil constituted for the less-developed countries. They pointed out, however, that in spite of the rapid growth in soyabean exports, exports of tropical oils and seeds had continued to grow. The representative of the United States particularly stressed the highly efficient production of soyabean in his country. He emphasized the fact that there was a growing world demand for protein rich food, for which soyabean were extremely suitable. The strong demand for soyabean and cakes to a large extent made the soyabean oil a by-product of the cakes on the world market. He further pointed out that the United States price support system for soyabean, which prevented the fall in prices of soyabean and soyabean oil below a certain level, had in times of a generally depressed world market indirectly strengthened that market, which was also to the benefit of tropical oils and seeds exporting countries. He further pointed out that his Government under its Food for Peace Programme distributed a considerable amount of soyabean oil to less-developed countries in order to make up for dietary deficiencies and inadequate fat supply.
Such activities were operated carefully, so as not to disrupt commercial exports of vegetable oils, and they greatly contributed to an improvement of the nutritional standards in less-developed countries. He further stated that, although soyabean exports constituted only a minor share of total United States exports, these exports were very important for improving the United States balance-of-payments position. Soyabean production further constituted an important part of the United States farmers' income. In suggesting a solution to the problems of less-developed countries, these and other relevant factors had also to be taken into account. A deeper examination of the whole problem and possible solutions, considered in the context of the immense complexity of related problems, seemed therefore necessary.

34. The Sub-Group recognized that a solution to the problem could not be sought in considering the removal of trade barriers only. Trade policy was only one aspect of the whole economic policy of a country. The effects of liberalizing measures in the field of trade policy, among other things, on the domestic agricultural policy had to be taken into account. It was noted in this connexion that the European Economic Community had not yet framed its Common Agricultural Policy in respect of animal and vegetable fats and the hope was expressed that in working out these policies, the EEC member States would take into account the predominant importance for less-developed countries of increasing their exports of tropical oils and seeds unhampered by trade barriers.
35. The relationship to the domestic agricultural policy was also stressed by the representative of the United States in respect of peanuts. The United States import restrictions on peanuts under the Agricultural Adjustment Act, were integrally related to agricultural price support for peanuts. The price support for peanuts was necessary for the protection of agricultural producers income in certain American States, where alternatives to peanut production were limited. The removal of import restrictions on peanuts, as such, would constitute a change in the agricultural policy and consequently in the price support programme of the United States. The present price support for peanuts was accompanied by stringent production controls. It was an open question whether a removal of the production controls together with the price support and the import barriers, would not eventually lead to an increase in United States production to the detriment of producers in certain tropical countries. Such a question would need careful consideration.

36. In seeking further possible solutions for increasing export earnings of less-developed countries, members pointed out that in industrialized countries generally there exists a great amount of protection for national crushing industries which tends to insulate these industries from outside competition and greatly hampers diversification of the economies of less-developed countries. It was felt that in this field there was scope for a fair degree of further development of less-developed countries and it was considered important that not only improved access for primary products but also improved access for further processed products should be afforded. It was also pointed out that in this field the existing preferential systems had greatly contributed to the development of industries in less-developed countries through the granting of free entry for both seeds and oils into the sheltered markets and in some instances through an active government policy.

37. The representative of the United States put forward certain specific proposals. In view of the complexity of the problems involved, the Sub-Group should continue its work and keep the question of tropical oils and seeds under examination. If there existed a general willingness to enter into major trade negotiations, the possibility of including these products in such negotiations
should be carefully examined. In this connexion he stated that the United States was prepared to enter into negotiations on its agricultural tariffs and might be prepared to use the authority given under the Trade Expansion Act to negotiate the elimination of tariff duties on tropical oils and seeds, not produced in the United States. Furthermore, in respect of products produced in the United States his Government might be prepared to negotiate a 50 per cent reduction in the duties, including the tariff on groundnuts. He pointed out further that even if quantitative restrictions in conformity with the General Agreement were to be maintained, a reduction or elimination of the tariff would be a significant step forward in view of possibly increased import opportunities in future. The creation of such opportunities would largely depend on the successful outcome of possible future international discussions, on a basis of reciprocity, on internal domestic production and price policies.

Conclusions

38. The Sub-Group felt that a consideration of the problems confronting exports of tropical oils and seeds was particularly hampered by their complexity. Although a great amount of agreement existed on certain aspects of the problems none of these aspects could be considered in isolation. It was, therefore, not possible at this stage to put forward proposals for a specific course of action and the Sub-Group felt that further studies in depth of the problems involved were required.

39. There was a general consensus of opinion that, the price of tropical oils and seeds was an important matter for the exporting countries. However, a commodity agreement approach to strengthen the price of these products would not be an appropriate solution because of the immediate substitutability by other tropical oils, by temperate zone vegetable oils and seeds and by animal fats or fish oils.

40. The Sub-Group recognized that while the removal of preferential arrangements would have an adverse effect on countries benefiting from preferences a solution to the problems referred to above should be sought which would be satisfactory to all less-developed countries producing these commodities. If a solution was
to be found in terms of a reduction or elimination of duties and other import barriers, and hence in a removal of preferences, such a solution had to incorporate appropriate safeguards for countries depending on preferential arrangements. An appeal was made that pending a solution along these lines, nothing should be done to intensify and extend present preferential arrangements to the prejudice of non-sheltered supplying less-developed countries.

41. It was felt that promotion of trade between the less-developed countries themselves - by inter-regional arrangements or otherwise - might contribute to a solution of the problem.

42. A number of members of the Sub-Group suggested that a solution of the problems would be facilitated if industrialized countries ceased to differentiate in their import policies between vegetable seeds and oils.

43. The Sub-Group agreed that developments in production and exports of temperate zone vegetable seeds and oils and of animal fats were of primary importance to the less-developed countries supplying tropical seeds and oils. The general prospects for tropical seeds and oils did not appear to be favourable. The Sub-Group agreed that consideration should be given to the question of including the problems of tropical oils and seeds in the framework of general trade negotiations and in international discussions on internal agricultural price and production policies.

44. It was recommended that industrialized countries, in framing their agricultural policies should, where these policies affected tropical oils and seeds, duly take into account the predominant importance attached by less-developed countries to maintaining and increasing their exports of these products unhindered by trade barriers.
IV. COFFEE

45. The Sub-Group started its examination on coffee by an appraisal in general terms of the market situation. Account was taken of the successfully negotiated International Coffee Agreement. Its entry into force will create a new market situation by the introduction of export quotas aiming at maintaining prices.

46. As shown in the secretariat's paper, recent years had been marked by a rate of growth in production of coffee that by far surpassed the rise in world consumption. The resulting stocks constituted an ever-increasing burden on the producer countries, two of which in particular held a large part. This situation, aggravated as it had been by the prospects of yet higher production in the future and but a slow growth in consumption, had led to heavy and continued falls in the price of coffee.

47. The export earnings of the producer countries had thus been seriously affected. All these countries were among those striving to develop their economies, and exports of coffee were a major source of their foreign income. Frequently, however, they saw their earnings decline in spite of larger quantities of coffee sold.

48. It was clearly recognized therefore that the overriding objective of the discussion was to give producers of coffee, all of whom were developing countries, at least stability, and preferably growth, in their export earnings. Higher consumption would play a major rôle in the solution of this problem, and it was noted that an inverse correlation seemed to exist between the level of incidence of taxes and charges and the level of consumption. In the latter, however, habit also played an important rôle both in high-income and low-income countries, and it was pointed out that efforts were now being made to raise consumption also in the producing countries themselves.

49. The fact that coffee had only one predominating end use, as a beverage, tended to simplify the issue as the question of processing was consequently of less importance than for several other commodities.
50. The Sub-Group noted that at present there existed two market systems for coffee, each with its own price level:

(a) under one system, applying to most of the market, all producers had relatively free access at world market prices, while

(b) the second system, applying to the remaining part of the market, secured sheltered access for certain producers who received prices higher than those prevailing outside, as a result of quantitative controls and preferential duties.

The existence of the two systems was linked to the effects barriers had on the pattern of trade.

51. Examining the effects of regional trading arrangements, the Sub-Group noted with satisfaction that the price differentials on the EEC market (France in particular) and the preferential competitive position of the suppliers associated with that market, were likely to be lessened in the future in view of the reductions in the common external tariff and the gradual lowering of the premium prices, envisaged in connexion with the Convention on Association between the EEC and several African States, which however, has not yet entered into force. It was hoped that these measures would represent a step towards the creation of a single world price for coffee. The offer of increased financial aid by the EEC to compensate for the losses incurred by the African States and to enable them to diversify their economies, was appreciated by the Sub-Group. A representative of a producing country observed that while this aid was to be welcomed in itself, none of it would go to non-associated countries. Speaking on behalf of the associated States, the representative of the Ivory Coast stated that the concessions made by these States were the maximum possible at present, and that while the Convention would be beneficial to the associated countries, it would not adversely affect third countries, who should not find themselves worse off than before. Other representatives, however, expressed concern at any trade diversion which might result from the extension of existing preferences and adversely affect their countries. The Sub-Group recognized the great effort made by the associated countries and its significance as a major step towards a reconciliation of the two market systems; it was hoped that still further progress would follow, and Article 47 of the International Coffee Agreement was cited in this connexion.
52. Referring to imports of coffee into the European Economic Community, its representative pointed out that between 1957 and 1961 the supplies from third countries had risen by 32 per cent thereby increasing their share in the market from 69 to 71 per cent.

53. It was the consensus of the Sub-Group that the new International Coffee Agreement was a development of major importance as it represented a mechanism which would contribute to solving the price problem. Its efficacy would, however, largely depend on the manner in which the Agreement is administered and the strictness with which quotas are adhered to. In the opinion of the United States representative these were at present too large, and continued downward pressure on prices was to be expected.

54. It was pointed out that restraints on exports and production involved considerable sacrifices for the producers (Brazil, for instance, was uprooting a considerable number of coffee trees). It was, therefore, not unreasonable to expect importing countries to do their part by abolishing duties, and, in particular, internal charges, which presented the greater obstacle to consumption. Steady export earnings were a minimum prerequisite for any diversification and development in the producing countries.

55. The representatives of the EEC and the Federal Republic of Germany, however, pointed to the high increase in consumption which had taken place within the Community despite high fiscal charges, and to the bright prospects for further increases. Even if, as a result of an abolition of internal charges, consumption rose by 100,000 tons - and this estimate might be somewhat too high on account of the elasticities used in the calculations referred to in the secretariat paper - the rise would hardly be immediate. Spread out over time, and compared with the higher level which consumption would reach in any case, it would no longer represent the 4 per cent indicated in the secretariat paper. The representative of the EEC also noted that even the secretariat paper clearly pointed out that the major part of the increase in world consumption of coffee would have to originate in the non-industrial countries and Eastern Europe.
56. Some concern was expressed that an abolition of trade barriers might lead to a decline in demand for Robusta coffee on the French market and thereby cause difficulties for its African producers. On the other hand, reference was made to the strength of Robusta relative to Arabica apparent at the present time, partly due to the free access it enjoyed on other markets which was not paralleled by equally free access for Arabicas to some European markets. Moreover, demand for Robusta could be expected to increase further as a raw material for the production of soluble coffee and as a constituent, with higher priced Arabicas, of moderately priced blends.

57. Appreciation was expressed that the representative of the EEC had not attempted to defend the system of internal charges, but also some regret that no indication should have been given of any intention of abolishing them in the three countries of the Community where they were important. It was observed that it should not be too difficult for the governments concerned to find other sources of revenue, such as taxation of incomes, that did not directly hamper the exports of the coffee-producing countries.

58. Several representatives described to the Sub-Group the barriers to trade and their effects on consumption in their countries. The majority of speakers were able to report considerable increases in consumption during recent years and declared themselves prepared to negotiate for an early reduction or abolition of duties, fiscal charges and quantitative restrictions provided that other countries did the same.

59. Certain representatives felt that quota regulations might have to be recognized for the time being as an integral part of the dual-price system. A large number of delegations however firmly stated that strong and concerted efforts should be made to get rid of duties and fiscal charges. In this connexion account should be taken of the effects on consumption, but due regard should also be paid to the principle that governments of the wealthier nations should not derive their fiscal revenues from taxes and charges which could hamper the exports from the developing countries of products which are not produced domestically; this principle should also apply to soluble coffee.
Conclusions

60. The Sub-Group was in agreement that the existence of two distinct market systems had to be recognized and it was the view of the Sub-Group that the desirable objective was the reconciliation of these two marketing systems with the elimination of regional inequalities.

61. The Sub-Group considered that such a reconciliation could be facilitated on the one hand by an efficacious implementation of the Coffee Agreement which might conceivably lead to a gradual increase in prices on the free market, and, on the other hand, through the medium of the Convention concluded between the EEC and associated States aimed at the progressive decrease of sheltered prices to the level of prices in the world market.

62. The Sub-Group noted the statements of representatives of the EEC and of the associated States that the provisions of the Convention between them represented as far as the Community and the associated States could go for the time being.

63. It was recognized in the Sub-Group that a reduction in prices for producers now enjoying premium prices in sheltered markets should be offset by increases in economic aid, in particular from the importing countries benefiting from the lowering of prices.

64. The Sub-Group also noted the view expressed by other representatives that it should be possible to make further progress towards increased trade and consumption. In the view of some delegations quantitative restrictions would have to be recognized for the time being as an unavoidable part of a dual-price system. However, many representatives felt with reference to paragraph 47 of the Coffee Agreement that concerted action should be taken to reduce or remove obstacles to trade and consumption, and tariffs and internal charges in particular. Such action could appropriately be taken in the forthcoming GATT Trade Negotiations, in so far as tariffs especially were concerned, and hopefully, with respect to consumption taxes, at the GATT ministerial meeting to which this question has already been referred by the Special Group itself.
65. It was emphasized by several delegations that in addition to the fact that a reduction in or abolition of tariffs and internal charges would lead to higher consumption, such policies would be regarded as an important manifestation of the principle that industrial countries should not finance their government expenditure by hampering exports from the less-developed members of the trading community. It was admitted, however, that for many countries, a change of the fiscal structure, such as was necessitated by such a reduction or abolition, would have to be gradual.

66. As regards raising consumption, it had, however, also to be recognized that a large part of any increase in consumption would have to result from higher incomes and forming of coffee-drinking habits, also in the producing countries.
(a) **Trade problems**

67. A number of less-developed producing countries reiterated their proposal that there should be duty-free entry for tea.

68. Producing countries expressed their concern lest the proposed EEC Common External Tariff on tea might encourage production of tea in States associated with the Community to the detriment of third country suppliers. In reply, the representative of the EEC pointed out that associated States produced only very small quantities of tea and that the proposed duty should be regarded as being of a primarily revenue-raising character. The representative of the EEC went on to express the view that the solution envisaged as regards tea in the course of the negotiations in connexion with the United Kingdom's application for accession to the EEC, might be taken into account in the preparations for the proposed GATT Trade Negotiations. Reference was also made to the United Kingdom duty on tea (2d. per lb. or 5 per cent ad valorem) which, it was maintained by some representatives, constituted a barrier to exports from non-Commonwealth countries. The United Kingdom representative pointed out, however, that his country imported half the tea produced in the world and that recently Indonesia had been able to find a market for her teas in the United Kingdom despite the existence of the small preferential duty. The representative of Japan stated that his country, which wished to foster its own tea industry, would experience difficulty in removing the existing duty on tea.

(b) **Conclusions**

69. There was general support in the Sub-Group for the proposal for duty-free entry for tea and it was agreed to recommend to the Special Group on Trade in Tropical Products that it should pursue this proposal.
VI. TROPICAL TIMBER

(a) Trade problems

70. The Sub-Group discussed the question of trade in tropical timber, including the proposal for duty-free entry.

71. The representative of the United States drew attention to the fact that the United States Trade Expansion Act provided authority which might be used in the proposed General Trade Negotiations to eliminate United States duties on tropical products on items where domestic production was insignificant and where the EEC were prepared to do the same; such an exercise in regard to tropical timber would involve no reciprocal concessions on the part of tropical timber producers. The representative of the EEC expressed the willingness of the Community to remove its preferential duty on tropical timber provided other preferential duties affecting tropical timber were simultaneously dismantled. The representative of the United Kingdom wished to draw attention, in this context, although it had a more general application, to the benefits conferred by preferential arrangements on at least a significant sector of the less-developed countries of the world. In his opinion the Sub-Group ought to consider the general problems, preferential or otherwise, affecting the trade of the less-developed countries in all the tropical products with which the Sub-Group were concerned.

(b) Conclusions

72. There was general support in the Sub-Group for the proposal for duty-free entry for tropical timber and it was agreed to recommend to the Special Group on Trade in Tropical Products that it should pursue this proposal.
VII. BANANAS

(a) Market situation

73. The Sub-Group examined the situation of world trade in bananas against the background of the secretariat paper W(63)2. A paper prepared by the Organization of American States was distributed in document Spec(63)26 during the course of the meeting of the Sub-Group.

74. The Sub-Group noted that, although banana production was exposed to considerable natural and climatic hazards, supply could be quickly expanded and had kept pace with increasing demand; indeed, during recent years, the rapid increase in exportable production had been followed by a general decline in banana prices. However, given the low level of consumption in a number of countries, the world market as a whole was still far from saturation.

(b) Trade problems

75. It was pointed out that import prices in countries granting preferences to certain sheltered suppliers were in general higher than on the free markets. This was the case in the United Kingdom, France and Italy. Because of the varying trade margins and taxes levied, there was no direct relationship between the import price and the consumer price.

76. Several representatives emphasized the fact that the character of world trade in bananas was different from that of world trade in other tropical products. The banana plant came quickly to maturity which enabled supply to be increased rapidly; but it was subject to peculiar hazards in the way of disease and climate which could lead to considerable fluctuations of production in individual producing areas. The banana was also very delicate and perishable and required specialized transport and ripening facilities which were costly to provide.

77. It was recognized in the Sub-Group that there was a considerable lack of information regarding the organization of the market and such matters as production, transport and marketing costs, wages, social charges, etc. as well as the elasticity of consumers' demand in respect of both income and price.
This lack of information made it difficult to analyse fully the situation in world trade in bananas. In this connexion the Sub-Group noted that Latin American banana-producing countries had proposed that a Study Group on bananas should be established by the FAO.

78. Particular stress was laid by several representatives on the integrated nature of the banana trade. It was pointed out that, owing to the physical qualities of the fruit, there had to be a high degree of integration from plantation to wholesale trade, including transport and marketing networks. One effect of this integration, in the view of some representatives, was to inhibit competition. In their view, the importance of the monopolistic character of the banana trade and transport might, in fact, be claimed to be comparable to that of trade barriers. Other representatives pointed out that, in view of the costly and specialized nature of the equipment required, it was not economic to have more than a few marketing organizations in any one market.

79. Some representatives pointed to another significant feature of world trade in bananas, namely the compartmentalization of markets. This was, in the view of these representatives, in part due to the integrated character of the industry and in part to the preferential arrangements between certain important importing countries, such as the United Kingdom or the EEC, and certain producing countries.

80. It was noted that these preferential arrangements which were made effective through quantitative restrictions, tariffs or restrictive State-trading practices, resulted in higher consumer prices than would otherwise be the case and adversely affected the level of consumption. The United Kingdom representative pointed out, however, that if all banana imports were liberalized in his country this could well result in a widening of the present relatively modest trade margins with the result that consumer prices might not fall as much as might be expected.
81. Some representatives also expressed concern about the effects of quantitative restrictions applied by such countries as, for example, Japan and Finland.

82. It was generally agreed that a reduction in prices which would result from all measures which could be taken for this purpose would bring about an increase in consumption. Divergent views were, however, expressed about the magnitude of such an increase.

83. It was generally recognized that the consumers' response to a decline in prices was higher in the case of bananas than in the case of other tropical products, such as coffee and cocoa, but even so some delegates expressed doubts whether producers' incomes as a whole would be increased by a decline in prices.

84. The view was expressed that account should be taken of the fact that banana consumption was related to that of other fresh fruit. Italy, for example, was among the lowest banana consumers in Western Europe but was among the highest consumers of fresh fruit in the world. Attention was drawn to seasonal factors in the case of other fresh fruits and to the possibilities for bananas to fill this gap.

85. It was accepted in the Sub-Group that there was a lack of precise information concerning price elasticities of demand for bananas and elasticities of substitution in respect of other fruit. It was therefore difficult to give precise quantitative estimates of the effect on consumption which would result from a removal of trade barriers. The representative of the EEC made the point that, in the view of the Community, the increase in consumption which might result within the Community from the suppression of trade barriers would only represent a small percentage of the increased consumption which would result in the future from increases in incomes, and would only be a very small percentage of world trade. The representative of the United Kingdom did not expect that the removal of trade barriers would result in more than a modest increase in consumption in his country.
86. There was some discussion on the large trade margins which existed in certain importing countries and the view was expressed that it should be possible to reduce these margins. As far as Italy was concerned, the operation of the State monopoly resulted in margins between the import and retail prices which, in spite of substantial reductions in recent years, were still significantly higher than in other countries. In the United Kingdom and France on the other hand, although import prices were significantly higher than the world price, trade margins appeared to be modest and this resulted in consumer prices that were not substantially higher, and in some cases were lower, than in other similar countries with free markets. The point was also made by some representatives that a reduction of trade margins would permit a reduction in the retail price without any adverse effect on the prices received by the exporting countries; this therefore would benefit both the exporting countries and the consumer in the importing country.

87. Several representatives stressed the benefits which resulted from preferences for the producing countries concerned and emphasized the loss in export earnings which these countries would experience if the preferences were removed, loss which could result either from a fall in prices or from a fall in export volume. In particular, the representative of Italy underlined the importance of the existing system in his country for the development of Somalia, whose production was not competitive and the major part of whose export receipts came from banana exports. Other representatives, however, doubted whether there would be any losses to producing countries through the removal of preferences because of the increase in the volume of exports to be expected from liberalization, even if this was limited, and from the lowering of retail prices.

88. As regards the export prices of sheltered countries, the representative of the EEC pointed out that, apart from the loss that would result from an alignment of these prices to the world market level, it should be borne in mind that the world price itself had fallen by 20 per cent in recent years and that it might even continue to decline; this decline had been reflected in prices in the sheltered markets.
89. As regards the volume of exports of sheltered countries, the view was expressed that, in a number of cases, these countries would have to severely cut back or even discontinue their exports if the prices they received were to fall to the world price level; for some of these countries banana exports represented their major export and were vital to their economic development.

90. Representatives of exporting countries not benefiting from preferential arrangements stressed the inequity of the fact that competitive producers were not permitted access to certain important markets. They pointed out that if competitive producers were granted such access this would not only benefit these producers but also the consumer in the importing country. The view was also expressed that the question of consumer preferences for certain types of bananas tended to be over-stressed bearing in mind that, in certain importing countries, the consumer in fact had no choice as regards the types of banana he could purchase and that some markets had in the past changed the type of banana they consumed without any great difficulty.

91. Furthermore, the representatives of non-sheltered exporting countries expressed their serious concern about the effects which could result from an extension of preferences to markets where such preferences did not at present exist.

92. The representative of the EEC stated that the Community itself did not consider the present market arrangements to be satisfactory. The problems involved, however, were of considerable complexity and importance but it was nevertheless the hope of the Community that it would be able to co-operate with the other countries in a consideration of the banana question with a view to bringing about a more satisfactory situation, while at the same time safeguarding the interests of the States associated with the Community. The representative of the EEC expressed the opinion that it would be desirable for there to be co-operation between the producing countries themselves who should try to determine what was in the common interest of all banana-producing countries.
93. Several members of the Sub-Group stressed that the objective should be the elimination of trade barriers without, however, prejudicing the economic development of those producing countries which at present benefited from preferences. In their view some way should be sought to secure access to markets at a reasonable level for the exports of any "hard-core" cases and, except in respect of exports from these countries, markets should be liberalized. In addition, the provision of financial assistance should also be envisaged in certain cases where adjustment problems would arise as countries at present enjoying sheltered markets progressively come to compete freely on a world market basis.

94. In the meanwhile, one representative proposed, in connexion with the concerns expressed in paragraph 91 above, that all importing countries should refrain from any measures which might represent an intensification of barriers to trade.

(c) Conclusions

(i) The Sub-Group stressed the particular character of the banana trade which was largely due to the characteristics of the commodity and the consequential high degree of integration within the trade.

(ii) It was recognized that preferential arrangements, made effective through tariffs, restrictive State-trading practices and, in particular, quantitative restrictions resulted in high import prices and had trade directive effects; in some sheltered markets, however, consumer prices were not excessively high due to the modest trade margins involved.
There was general agreement that a removal of trade barriers which would lead to a fall in consumer prices would bring about an increase in banana consumption, although there were differences of view as to the extent of such increase.

The Sub-Group recognized the importance of sheltered access to some of the producing countries concerned and the adverse effects on these countries' export earnings from bananas that might result from the removal of all measures providing for sheltered access, especially in the case of marginal producers.

The Sub-Group also recognized the difficulties of the non-sheltered exporters and their serious concern about the effects of existing preferences and of any extension of preferences.

There was agreement in the Sub-Group that there was a considerable lack of knowledge about many aspects of the banana trade and industry, including such matters as price elasticities, elasticities of substitution of other fruits, organization and costs of production, producer prices, transport and marketing as well as data on wages, social charges, wholesale and retail prices, etc. The Sub-Group would therefore recommend that studies on these problems should be undertaken. Such studies, which would require the collaboration both of government and of the banana industry, could, in the view of the Sub-Group, appropriately be undertaken jointly by the GATT and the FAO secretariats. The GATT secretariat will submit to the Special Group a possible programme of further studies.

The Sub-Group recommended to the Special Group that the discussion of this question of trade in bananas should be carried forward on a continuing basis.