GENERAL AGREEMENT ON
TARIFFS AND TRADE

Special Group on Trade in Tropical Products

MEETING OF THE GROUP HELD ON 21 JULY 1970

Secretariat Note on Proceedings

Introduction

1. At its resumed sixteenth session held on 26 May 1970 the Committee on Trade and Development agreed that the Special Group on Tropical Products should meet in the second half of July to consider the tariff problems arising in connexion with trade in new and improved forms of natural rubber, to examine internal charges and revenue duties imposed on tropical products, and generally to review the situation in regard to the six priority groups (coffee, cocoa, tea, vegetable oils and oilseeds, bananas and spices).

2. The Group met on 21 July 1970 under the Chairmanship of the Director-General, Mr. O. Long. The provisional agenda, issued as SGTP/19, was adopted.

General review

3. The Group reviewed the market situation of the six product groups against the background of information prepared by the secretariat (SGTP/15, SGTP/18 and Add.1, and COM.TD/W/120).

4. Representatives of some developing countries stressed that while GATT should continue its efforts to work out solutions for the problems faced by vegetable oils and oilseeds it should collaborate to this end with the Joint FAO/UNCTAD Inter-governmental Consultative Committee which was being established. They referred in this connexion to discussions at the recent meeting of the UNCTAD Committee on Commodities.

5. In response to a request by Nigeria and Ceylon for information concerning the proposals made earlier by these countries for the removal of trade barriers affecting certain vegetable oils and oilseeds and the negotiation of a standstill on new barriers, the representative of the EEC stated that instructions were still in the course of preparation. He also mentioned that in the context of the second Yaoundé Convention the Community envisaged action to suspend duties on certain tropical products including some on vegetable oils. The Group would be informed about these measures in due course.

6. The representative of a developed country felt that in view of the technical nature of the problems affecting both temperate and tropical vegetable oils, these should preferably be discussed in the Agriculture Committee. In the view of some
developing countries, however, this action should not be limited to the Agriculture Committee and the Special Group should also continue its attempts to secure solutions to these problems.

7. Representatives of tea-producing countries, pointing to the serious imbalance between supply and demand on the international tea market, referred to the recent informal arrangement among producers regarding export control and appealed to developed countries to reciprocate by improving access to their markets through the elimination of duties, where they still existed, and the removal of internal fiscal charges. Disappointment was expressed at the lack of progress in the recently held consultations concerning the draft international cocoa agreement. These discussions had however proved useful in bringing to light certain ambiguities that will have to be removed before a workable agreement can be concluded. Note was taken of consultations relating to coffee prices.

8. With respect to action of interest taken by governments, the Group took note of the intention of the Government of Italy not to seek extension beyond 1970 of the arrangement whereby a preferential consumption tax is applied to banana imports from Somalia. The representative of Japan indicated that his Government was taking certain measures in order to improve access for tropical products to the Japanese market. This was illustrated by the reduction of the import duty on black tea in bulk from 35 to 20 per cent as of May 1970.

Problems of new and improved forms of natural rubber

9. In introducing this subject, the Chairman pointed out that the Committee on Trade and Development had agreed that the problems of new and improved forms of natural rubber be considered in the Special Group. To help in this examination the secretariat, in consultation with interested delegations, had prepared a background note, SGTP/16, which among other things provided details of import duties imposed in certain countries on several types of natural rubber identified by developing countries as of interest to them. The Chairman suggested that in its discussion, the Special Group might have particular regard to the summary of points on which it might focus attention which was outlined in paragraph 20 of SGTP/16.

10. The representative of Malaysia, supported by representatives of some other natural rubber exporting countries, outlined the tariff problems which continued to face new and improved forms of natural rubber. It was proposed that these problems should be considered in the light of Article XXXVII:1(a) which provides for the according of high priority to the reduction and elimination of barriers to products currently or potentially of particular interest to less-developed contracting parties, including customs duties and other restrictions which differentiate unreasonably between such products in their primary and their processed forms. The case of improved forms of natural rubber was raised in response to repeated requests from developed countries that specific instances of unreasonably differential treatment be brought to their notice for possible action.
11. It was pointed out that the development, at considerable domestic cost, of new and improved forms of natural rubber was undertaken to meet the challenge posed by synthetic rubber. In a world rubber market that is fast becoming dominated by synthetics, competitiveness, both in terms of price and technical characteristics, will be of increasing importance to countries producing new and improved forms of natural rubber.

12. The representative of Malaysia observed that while natural rubber in its raw conventional form was generally duty free in most developed importing countries, new forms of natural rubber, whose technical characteristics had been modified by the addition of oils, carbon black or certain chemicals in order to tailor-make these products for specific end-uses, were often dutiable. In this connexion, the action taken by the United States Government to seek the removal of duties on new and improved forms of natural rubber was welcomed and the hope was expressed that other importing countries would also take action to remove the remaining duties on these forms of rubber.

13. It was suggested by representatives of developing countries that action should not await the conclusion of the proposed Generalized Scheme of Preferences. Firstly, the proposed scheme would provide only temporary relief from import duties for a period of ten years, while the solution sought by developing countries was a permanent one in line with the provisions of Part IV of GATT. Secondly, there was a lack of clarity in some of the offer lists as to whether or not improved forms of natural rubber which fall within BTN Chapters 25-99 could be considered as "semi-manufactures and manufactures". Thirdly, although duty concessions are likely to be granted, the quantities which would enjoy such concessions might be subject to quotas and ceilings in certain cases. Most developed countries present, who will be participating in the Generalized Scheme of Preferences for developing countries, informed the Group that natural rubber was included in their illustrative offer lists.

14. The representative of the United States reaffirmed that legislation had been submitted to Congress in April 1970 and that no insurmountable problems were anticipated in having the proposals for the removal of duties on new forms of natural rubber approved. Although he could not be absolutely specific concerning coverage, the legislation in general terms concerned new and improved forms of natural rubber containing additives. This action would be facilitated if other importing countries could be persuaded to take similar action.

15. The representative of the EEC stated that the Community was aware of the problem raised by producing developing countries and was currently examining what new measures could be taken to provide duty exemption for those forms of natural rubber in which developing countries had expressed interest.

16. The representative of Japan pointed out that his country was also giving serious consideration to the dismantling of the remaining duties on new and improved forms of natural rubber.
17. The representative of the United Kingdom explained that Commonwealth exporting countries of natural rubber enjoyed preferential treatment on the United Kingdom market and he would be interested to have the views of exporting countries affected on what action in this connexion might be considered.

18. The representative of Sweden stated that chemical derivatives of natural rubber were classified under tariff item 39.05 in his country's tariff, and that in the view of his authorities, the products were considered as plastics and not as natural rubber since they lacked some of the characteristics of the latter. He pointed out further that there were no duties on what his authorities considered as raw, semi-processed or improved forms of natural rubber. Moreover, the most important product under tariff item 39.05, namely chlorinated rubber, was accorded duty-free entry as from 1 July 1970. In this connexion the representative of Malaysia stated that although some of the improved forms of natural rubber did not necessarily conform with all the technical characteristics of natural rubber, this was due to the necessity to render these products usable for specific end-uses and thus enable them to face the competition from synthetics. It was on this basis and having regard to the provisions of Article XXXVII:1(a) that duty-free treatment was being sought.

19. In thanking those developed countries for the action which they had already taken or were considering in relation to the removal of duties remaining on new and improved forms of natural rubber, the representative of Malaysia, supported by representatives of other developing countries, appealed to those developed countries not already doing so, to take steps to implement the action provided for in Article XXXVII:1(a) in respect of these products.

20. The representative of Malaysia also referred to the question of internal charges on natural rubber and noted that some background information was contained in document SGTP/16. It was the view of his delegation that for primary products facing stiff competition from synthetics, such as natural rubber, the question of internal charges assumed greater urgency. Although they might not be strictly considered as non-tariff barriers, they had, in the view of the Malaysian delegation, the same effect as the imposition of tariff or non-tariff barriers, in that they tended to limit consumption. It was therefore proposed that the internal charges on natural rubber should also be examined by the Special Group.

21. The Chairman, in summing up the discussions on this subject, welcomed the action which was in course or being considered in a number of countries and hoped that further progress in this direction could be reported to the next session of the Special Group.
Import duties and internal charges imposed on tropical products

22. A preliminary note COM.TD/W/121 contained data on internal charges on coffee, cocoa and tea in certain importing countries in 1962 and 1969. A revised document, SGTP/17 and Add.1, prepared in the light of comments by delegations, covered also spices and bananas and it further dealt with import duties and quantitative import restrictions on all these products. Addendum 2 contained a note on recent discussions in the Working Party on Border Tax Adjustments of points relevant to the work of the Special Group.

23. The Chairman suggested that in addition to taking up any general points that might have been touched upon in earlier discussions such as those of the Working Party on Border Tax Adjustments, the Group might wish to see how the commitments in paragraph 1 of Article XXXVII related to the products being examined and what practical application of these commitments had been made.

24. Representatives of developing countries pointed out that although there had been considerable progress in the elimination of quantitative restrictions on the import of tropical products and in the reduction of certain import duties, internal charges still constituted a major factor inhibiting access to the markets of developed countries. They called for their elimination in response to the commitments under Part IV. Since the Ministerial Conclusions of 1963 at least two kinds of problems had arisen with regard to internal charges. Firstly, there was the case where the same system of taxation had been maintained, often with an increase in the tax incidence. Secondly, there were instances where selective taxes, single stage taxes and turnover taxes had been replaced by a tax on value added and in the process the tax incidence had sometimes increased.

25. In regard to the effects of internal charges on direct consumption of tropical products, the representative of a developing country felt that although one could not be very precise, it was evident that internal charges tended to inhibit consumption by raising the price paid by the consumer. It had been estimated that internal taxes constituted 16 per cent of the total retail price in the Federal Republic of Germany. Although there had been an increase in consumption in most developed countries, the growth in consumption might have been greater in the absence of such taxes. The representative of another developing country suggested that the whole question of internal charges on processed and semi-processed primary products should be seriously considered by the GATT in view of the growing emphasis being given to this subject. Processing of primary products not only provided increased employment opportunities but also contributed to the structural transformation of the economies of developing countries. The representative of a developing country pointed out that it was unjustifiable for developed countries to levy taxes on tropical products for revenue purposes which were actually higher than the prices received by producers in developing countries; nor would the levy of these charges be justified on the ground that they helped to finance development aid. In asking for the removal of internal charges on tropical products, especially those not produced in developed countries, developing countries were seeking trade neutrality and not discriminatory treatment.
26. Representatives of developing countries also referred to the apparent inconsistencies in tax treatment where certain tropical products were not subject to tax in some countries but in other cases were taxed at rates which varied from country to country. In addition, it was noted that where different categories of tax were applied by countries utilizing the tax on value added system, certain tropical products might be taxed under the reduced taxation category in one country and under a higher category in another country. Furthermore there was considered to be no justification for the continued application of selective taxes on tropical products, especially those not produced in developed countries.

27. The representative of India supported by other developing countries put forward for the consideration of the Group certain suggestions (paragraph 34) which were intended to serve as guidelines for action.

28. The representative of the United States pointed out that although the Special Group was not yet in a position to reach conclusions, action should be considered to reduce internal charges which inhibit consumption. The ideas put forward by the representative of India and supported by other developing countries were of considerable interest and could form the basis for serious consideration to see what progress could be made. He informed the Group that during the recent cocoa consultations, the United States delegation was in favour of strengthening the provisions in the draft agreement concerning the removal of obstacles to consumption.

29. Representatives of developed countries to whom special remarks had been directed explained the situation in their respective countries with regard to the internal charges on the products under discussion. Some considered that a distinction should be made between internal charges of general application and selective or specific taxes, since many of the taxes imposed such as cumulative turnover taxes and the TVA, affected all products. Other representatives pointed out that indirect taxation was a major source of revenue and its elimination, while depriving them of a major source of income, would not lead to any appreciable increase in the consumption of the products. The representative of one developed country stated that a recent rise in internal tax rates had been necessitated by government revenue requirements and by the desire to restrain internal demand for balance-of-payments reasons.

30. Representatives of member countries of the EEC recalled that their Ministers had not subscribed to the Ministerial Conclusions of 1963. Nevertheless their Governments had in practice observed some of these conclusions to the extent possible. The representative of Italy outlined the changes which had taken place in his country since 1962 including the reduction in consumption taxes on some of the products under consideration which had been quite significant. Although Italy intended to adopt a tax on value added system in 1972, it was not possible at this stage to provide any details of tax rates which might be implemented. The representative of Belgium informed the Group that when adopting the TVA on 1 January 1971, it was the intention of his country to apply to the products under consideration the lowest rate in its tax schedule, namely 6 per cent.
31. The representative of the Federal Republic of Germany stated that the reasons why his country had been unable to support the 1963 Ministerial Conclusions still applied. Studies had indicated that price had practically no effect on consumption of tropical beverages in his country and in fact sales had increased in recent years. Factors such as taste and traditional habits exerted a greater influence on consumption than prices. Even though excise rates had generally remained unchanged in recent years, they now accounted for a lower share of the final price of the products concerned. It was further pointed out that in the Federal Republic of Germany internal taxes which were born by consumers also contributed to the financing of development aid.

32. The representative of the EEC Commission expressed the view that exemption of tropical products from internal taxes might imply introducing commercial considerations into the field of fiscal policy.

33. The Chairman noted that although SGTP/17/Add.1 containing schedules of import duties and internal charges had been prepared in the light of comments received from governments on an earlier draft, the secretariat would welcome any further amendments which could be taken into account in revising the details shown. Representatives of a number of developing countries suggested that similar information on quantitative restrictions, import duties and internal charges should be prepared by the secretariat on vegetable oils and oilseeds. It was proposed by the representative of a developing country that quantitative restrictions and import duties on tropical products should be examined at the next meeting of the Special Group.

34. The Chairman felt that although valid arguments could be advanced in favour of maintaining internal charges as an element of national fiscal policy, developed countries might find it desirable to bring their political will into play and contribute to improving export possibilities for developing countries by observing restraint in taxing tropical products. He appealed to members of the Group to give careful consideration to the suggestions made by the representative of India. These proposals, which were supported by members of the Special Group representing developing countries, included the following points:

(a) Where changes in tax systems were contemplated, tropical products which were exempted under the previous systems should continue to be exempted under any new system adopted (standstill provision of Part IV).

(b) Where harmonization of tax systems was contemplated, tropical products which were not domestically produced should be exempted from tax altogether. If, in the process of harmonization, it was felt not possible to grant total exemption, for compelling and legal reasons, then the tax should be imposed at the lowest possible level existing at the time of harmonization (observation of Article XXXVII:1(c)).
(c) Selective taxes should be eliminated and not be replaced by general consumption taxes especially in the process of changeover to TVA or other types of taxation.

(d) Provision should be made for a regular review of developments in the Special Group on Trade in Tropical Products.

35. The Chairman expressed the hope that positive and concrete responses could be given to these ideas at the next meeting of the Special Group.