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Note: A separate secretariat note providing background information on tropical oils and oilseeds is contained in W(63)4.
I. Introduction

1. Barriers to trade in oilseeds and oils listed in document W(62)2 have been identified and examined as part of the work of Committees II and III. It was found in this respect that efforts of some countries to develop production and trade in oilseeds on a normal commercial basis are hampered by the existence of non-tariff measures which tend to restrict trade and to stimulate additions to supplies of similar or competitive products. In many countries no tariffs exist on imports of oilseeds, but certain countries still apply quantitative restrictions on imports of all or some oilseeds. Nearly all countries impose import duties on the processed product, in many instances at a differentiated level according to the stage of processing. Quantitative import restrictions and the levying of internal taxes on imported vegetable oils also are more widespread than in respect of oilseeds. Some countries apply State-trading practices, others apply mixing regulations to protect the production of domestic oils. In some cases protection is afforded not only to domestic production of oilseeds and to the vegetable oil-producing industry in importing countries, but often protection is afforded also on behalf of producers of substitute commodities. The differentiated import treatment in favour of the imports of the raw materials is a factor unfavourable to the development of oilseed-producing industries in less-developed countries. It was noted that a number of less-developed countries, which processed the raw materials, found themselves able to export only relatively small quantities of certain vegetable oils, while large exports of these oils took place from many industrial countries which did not produce the raw material. In some cases this led to underutilization of existing industrial capacity in less-developed countries.

2. These general findings of the two Committees have to be examined in more detail for the most important countries in order to assess the possible effects of a removal of trade barriers for tropical oilseeds and oils.

3. In order to simplify the complicated picture of the many vegetable oils and seeds, a great number of which are direct substitutes, the study is centred on an examination of the effects of a possible removal of trade barriers in respect of the main tropical vegetable oils and seeds only. Groundnuts and groundnut oil, copra and coconut oil and palm oil, palm kernels and palm kernel oil account for more than 35 per cent of world trade in all fats and oils, for more than 50 per cent of world trade in vegetable oils and for about 90 per cent of total exports of vegetable oils and seeds from tropical countries.

II. Barriers to Trade and the Effects of this Removal

(a) United Kingdom

4. The only barrier to imports of vegetable oils and seeds in the United Kingdom is the import duty. Imports of vegetable oils and seeds under the Commonwealth preference are free from duty. The tariff amounts to 10 per cent ad valorem on groundnuts, copra and palm kernels, 10 per cent on palm oil and palm kernel oil and 15 per cent on coconut oil and groundnut oil.
5. Imports of all these products are, with some negligible exceptions (about 2 per cent in the case of groundnuts), taken up wholly from countries enjoying Commonwealth preference. This would seem to indicate that the existing tariff is an effective barrier to non-Commonwealth exporters. It would, therefore, be expected that the export prices quoted for these products would to a certain extent be influenced by this preference. A tendency for the main Western European importers (not including France) to buy from non-Commonwealth sources might indicate that such is the case in respect of copra and palm oil. The price differences, however, are not significant (about 3 per cent for copra). In respect of groundnuts and palm kernels, where the Nigerian position outside the franc zone is dominant, the Commonwealth preference does not seem to have any noticeable price effect. The trade directive effect of the preference, however, is obvious.

6. A removal of the tariff barriers on imports of tropical oilseeds in the United Kingdom would not therefore seem to have a significant effect on import prices. It would open the market for non-Commonwealth suppliers and would tend to lead to some diversion of trade especially in the longer run. Some tendency towards a reduction in prices might be expected but the extent of this would depend on whether or not conditions of entry to other markets remained unchanged.

7. As regards tropical oils the situation is more difficult to assess since the tariff is intended to afford protection to the crushing industry. This protection extends not only to the United Kingdom industry but also benefits the crushing industry in the Commonwealth primary producing countries. A removal of the duty would expose not only the domestic industry but also the industry in the Commonwealth countries to competition in the United Kingdom market from the crushing industry in other primary producing countries and also from the existing industry in other industrialized countries. No attempt has been made to assess whether the crushing industry in other countries can produce and compete at lower costs. This question depends not only on the technical efficiency of the industry in a particular country but on the whole cost price structure in the country concerned. It would seem, however, that the possibility of an easy disposal of oils and by-products at remunerative prices would place the industrialized countries in a relatively favourable position. It may be noted that the labour cost factor is only of relatively minor importance because of the high degree of mechanization of the industry.

8. In respect of primary producing countries, the possible effect of a removal of the tariffs on tropical seeds and oils by the United Kingdom seems to be that the present Commonwealth suppliers would tend to suffer some reduction in their exports to the United Kingdom for which they would have to seek other outlets. This trade diversion may not result in a major change in total export earnings if entry to other markets is also open. The trade diverting effect would be partly offset by the existence of established trading relations which may not easily be disturbed.
9. For the non-Commonwealth supplying countries the possibility of competing on the United Kingdom market would be opened but any benefit from an increase in exports to that market would tend to be offset by increased competition from Commonwealth suppliers on other markets. The most important gain for the non-sheltered countries on the whole would probably be the fact that a broadening of the accessible market may tend to reduce to some extent excessive price fluctuations.

10. As regards tropical oils, after a removal of the tariff, the crushing industry in the Commonwealth countries would meet increased competition from oils originating in industrialized and non-sheltered primary producing countries. To the extent that the oil industry in other countries is more competitive this increased competition would tend to reduce the oil exports from the preferential zone to the United Kingdom. In this connexion, it is worthwhile to note that in the United Kingdom for many years, free competition has existed between oils crushed domestically and oils from Commonwealth producers.

(b) France

11. The French protection in the vegetable seeds sector is not restricted to domestic producers (annual production 60,000 tons, mainly of rape-seed), but extends also to the production of vegetable oils and seeds in the Associated African countries and French Overseas Departments. This protection is effected by the regulation of import and export through a government controlled professional agency (copra, palm kernel, coconut oil and palm kernel oil are liberalized), by a system of maximum and minimum prices and through import duties. Imports of groundnuts are free from duty while the tariff on copra and palm kernels amounts to 7 per cent; the tariffs on vegetable oils are listed in document W(62)2.

12. French imports of copra are mainly, and imports of palm kernels almost exclusively, derived from the former French African countries and overseas departments. Since these products have been liberalized there does not seem to be an appreciable difference in price between imports into France and imports into non-sheltered European markets. The tariff preference therefore, as in the case of the United Kingdom, does not seem to have had a noticeable effect on import prices. The support, however, provided for palm oil production in the African countries in the franc zone would to some extent affect the price of palm kernels.

13. French imports of palm oil are also mainly derived from the franc zone and in fact nearly all exports from these countries are directed to France (16,000 tons in 1960). The French price and import regulation measures lead to a certain price premium above world market prices. This premium can be estimated for 1960 at about 11 per cent of the world market price. Similarly, nearly all exports of groundnut oil from the franc zone (320,000 tons groundnuts and
120,000 tons of oil for 1960), are directed to France, accounting for half of French imports. The price premium above world market prices obtained for these products can be estimated for 1960 at approximately 11 per cent for groundnuts and 20 per cent for groundnut oil. This seems to indicate that, while the tariff preferences have little effect on import prices, the non-tariff import regulations have a more substantial price effect.

14. The removal of the present tariffs and restrictions on imports of tropical vegetable seeds and oils would, in all likelihood, lead to a decline in import prices which on the whole could be appreciable. This price reduction would be of no importance for palm kernels and copra and their respective oils, but it would be appreciable for groundnuts and palm oil and significant for groundnut oil. A distinct increase in demand for these oils and seeds at lower prices to the detriment of domestic vegetable seeds and for other substitutable oils and seeds and animal fats would therefore seem to be possible. There are, however, distinct limitations to a possible increase in demand for these oils. The consumption in France of groundnut oil, mainly in salad and cooking oils is already very substantial and might well have reached its saturation point. The oils and fats used for the manufacture of margarine in the years 1955-57 are composed of 50 per cent of coconut oil, 13 per cent of palm oil and 7 per cent of groundnut oil, while other vegetable oils play only a minor rôle. Although a change in price relation between groundnut oil and the other tropical oils may tend to substitute the latter oils to some extent by groundnut oil, it is not likely that the utilization of other substitute oils will be greatly affected. Also the composition of products used in soap manufacture in France is such that no appreciable change in the utilization of tropical oils may be envisaged, although some substitution of animal fats may occur.

15. In summary, the removal of the trade barriers on tropical oils and seeds in France would tend to a reduction in prices with consequential effects for vegetable seed producers. While some increase in demand of tropical oils may be envisaged, such an increase however, would be limited in a number of respects.

16. The immediate effect of a removal of the French import regulations would as far as overseas countries in the franc zone are concerned, result in an appreciable decline in export earnings. The total amount of the price difference can be estimated for 1960 at $111 million and was appreciably higher in previous years.

Apart from this fall in export earnings the volume of exports to France from the French preferential suppliers would decline to the extent that these exports would be replaced by supplies from other primary producing countries. As in the case of the United Kingdom there would here be at least in the short run a strong offsetting factor in the existence of established trading relations. A second offsetting factor would be the fact that some increase in demand for tropical oils, although limited, might be envisaged. Finally there could be increased opportunities.
in other markets. It is not possible to assess how the supplying countries in the franc zone would come out on balance but even if there were some increase in their total exports it is unlikely that it would be sufficient to make up for the loss in export earnings. In view of the very high proportion which exports of groundnuts and groundnut oil constitute in total export earnings of some of the countries concerned, it would be reasonable to assume that a loss in export earnings through the removal of the preferential price difference would have a serious effect on the economy of these countries. In this connexion it should be noted that the system of a price premium may be assumed to disappear in the further development of the relation between the EEC and the Associated African countries.

(c): Italy

17. Italy has an important production of olive oil, which with considerable annual fluctuations amounted to about 350,000 tons on an average for the years 1958-61. There exists further a significant production of various other vegetable oils (nearly 165,000 tons in 1960-61), which are essentially used for domestic consumption and utilization. The largest part of these oils is extracted from by-products, such as tomato seed. Because of the importance of the olive oil industry in the agricultural structure of the country, olive oil production is effectively protected against imports of other lower priced vegetable oils. Consequently, internal olive oil and vegetable oil prices are appreciably higher than world market prices.

18. The protection is effected by means of import duties (see document W(62)2) and a system of taxes. A processing tax is levied on the extraction of oils from most vegetable seeds (not including olive oil) and corresponding taxes are levied on imports of oil seeds, based on the equivalent of oils extracted and on vegetable oil imports. The processing tax amounts to 60 lire per kg. ($96 per ton) in the case of oilseeds and crude groundnut oil, 65 lire per kg. ($104 per ton) in the case of refined groundnut oil and 250 lire per kg. ($400 per ton) in the case of coconut oil and palm oil. The incidence of this specific tax, as an average of the last five years, amounts to approximately 33 per cent in the case of refined groundnut oil, 136 per cent for coconut oil and 170 per cent for palm oil.
19. An abolition of the import duties and particularly of the processing tax would significantly improve the competitive position of tropical oils, so that prices would tend to decline. The total consumption of oils and fats is still relatively low in Italy so that besides effects to be expected from a rise in income, the price reductions would be likely to bring about an additional increase in consumption of vegetable oils. The per capita consumption of margarine is still very low so that there appears to be scope for increased consumption. The tropical oils would increasingly share in its fabrication as well as in that of soap, if they could be freely imported. As regards salad and cooking oils, it should be noted that consumption of liquid oils, mostly olive oil, is already at a relatively high level. Although it might be envisaged that consumption of groundnut oil, directly for edible purposes, would tend to increase, it should be taken into consideration that there exists a marked consumer preference for olive oil so that no substantial decline in its consumption appears likely. The share of olive oil in total consumption would, however, tend to decline.

20. Although an abolition of the trade barriers on tropical oils would tend to increase the utilization at lower prices of these oils, which would tend to adversely affect olive oil prices, it is difficult to envisage that olive oil production would decline substantially, at least in the short run, because of the special nature of this tree crop and the fact that it plays an important rôle in soil conservation and is usually grown on land for which alternative uses are limited; moreover, the olive oil represents the major source of revenue for many low income farmers who could not shift to other areas.

21. Not much is known about the utilization and prices of the various vegetable oils produced for domestic consumption. If imports of tropical oils took place at world market prices it could be envisaged that they would to a certain extent replace domestic oils in their end uses.

(d) Germany, Belgium, the Netherlands and Luxemburg

22. Because of greatly similar characteristics in the vegetable oils sector, these four EEC countries can best be considered together. Domestic production of vegetable seeds in these countries is of minor importance. The most important is the production of rape-seed in Germany, which amounts to 24,500 tons oil equivalent, slightly more than 1.5 per cent of its total fat consumption. Germany's rape-seed producers receive a guaranteed price which is higher than the world market price. This guarantee is effected by the obligation for the margarine industry to incorporate rape-seed to an amount of 5 per cent in its production. Refined and hardened edible vegetable oils are governed by the German marketing laws and subject to import restrictions. Global quotas have been established which so far however, have never been fully utilized. This may indicate that the effect of these restrictions is moderate and would be of no importance for the primary producing countries. In the Benelux, imports of edible oils and seeds are liberalized.

23. There are no tariffs on imports of vegetable seeds in the four countries so that the only tariff barrier is the duty on imports of tropical oils. Germany, the Netherlands and Belgium have an important crushing industry for the production of oils from imported seeds. In particular in the Netherlands the export of such oils is important. In order to protect the crushing industry,
the tariff in these countries differentiates between crude and refined oils. For example the Benelux tariff on crude groundnut, coconut and palm kernel oils amounts to 6.5 per cent and on the refined oils 11.5 per cent. While these tariffs are relatively moderate, the fact that costs of imported seeds, which are free from duty, constitute a major cost in oil production and the crushing margin on the other hand is only a low proportion of these costs, the protective effect of these import duties is considerable.

24. A removal of trade barriers on tropical oils would clearly affect groundnut oil, coconut oil, palm oil and palm kernel oil. It would allow prices of imported oils to decrease by the amount of the duty and hence make them more competitive with the domestically produced oils. It should be noted however, that 60 per cent of total supply of these oils is processed from seeds imported free from duty; leaving palm oil imports aside this percentage amounts to 80 per cent. Furthermore a substantial share of tropical oil imports are made up of oils for industrial purposes or crude oils on which the import duty is relatively lower. A possible reduction in internal oil prices therefore, would only be marginal and would be appreciably less than the height of the import duty. It may therefore be expected that a removal of the trade barriers would not result in a very substantial overall increase in imports of oilseeds and oils, nor in a great improvement of their competitive position vis-à-vis other substitutable oils and animal fats. This conclusion is further mitigated by the fact that, although a price reduction of the imported tropical oils would tend to lead to some change in the price relation to substitutable products, the extent to which these substitutes would adjust their prices would clearly affect any possible increase in demand for tropical oils.

25. A removal of the mixing regulation in respect of rape-seed oil in Germany would make it difficult to maintain prices to the producer at their present level. But even, if no offsetting measures were taken which would allow rape-seed producers to maintain their production, a reduction in the minor share of rape-seed in the total German fat supply would not allow for significant changes in respect of tropical oils, the more so since every increase in demand would have to be shared with other substitutable products.

26. The removal of the tariff barriers would expose the crushing industry in these countries to full competition from outside suppliers. As in the case of the United Kingdom no attempt is made to assess the relative competitive strength of the oil crushing industry in these countries, although it could be remarked that the great domestic demand both for oils and cakes would seem a factor supporting their competitiveness. Unlike the industry in the United Kingdom, the crushing industry in these countries has not so far met unhampered competition from overseas suppliers, with the exception mainly of the Netherlands industry, which exports oils from imported nuts to the world market. It could therefore probably be argued that for part of the crushing industry in these countries it would mean certain difficulties to meet increased competition from the crushing industry in primary producing countries. In this connexion it should be noted however, that one of the purposes of the tariff differential in some cases is to protect the industry from "dumping" effects on the world market. It occurs that the world market price of vegetable oils bears no relation to the world market price of the seeds. This situation is often accentuated when seed producing countries take measures to discourage the export of seeds. A removal of trade barriers in respect of tropical oils and seeds, including restrictive measures on exports of seeds, would contribute to an elimination of such price distorting effects.
27. The United States is the most important single producer of oil seeds (17 per cent of world production on an oil equivalent basis in 1961). The main products are soya beans and cotton seed of which the United States share in world production amounts to 60 per cent and 26 per cent respectively. It has furthermore an important production of groundnuts and linseed. The main imports of edible oils consist of copra and coconut oil, of palm oil and palm kernel oil and of olive oil. The United States share in total world exports of vegetable oils and seeds amounts to 19 per cent on oil equivalent basis. The principal items are again soya beans (76 per cent of world exports), soya bean oil (69 per cent) and cotton seed oil (81 per cent of world exports).

28. Soya beans are used for the production of both fodder and oil. Because of its high standard of mechanization and efficiency, United States soya bean production is strongly competitive with other oils and oil seeds in world markets. Increase in cattle and livestock production lead to a strong demand for soya bean meal, which because of its high protein content is very suitable for feeding purposes. The relatively remunerative prices received for soya bean meal and the high meal content in soya beans (17 per cent oil extraction rate as compared to shelled groundnuts 45 per cent) particularly strengthens the competitive position of soya bean oil. This is reflected also in a declining trend in the use of groundnut oil for margarine manufacture in the European countries.

29. Groundnuts are produced under a government-support programme; imports are limited to an annual global quota and are subject to a specific import duty, which in ad valorem terms amounted to 49 per cent for shelled groundnuts in 1960 (see document W(62)2). As a result of this support, over the last three years, United States producer prices for groundnuts have averaged 55 per cent higher than world market prices for groundnuts c.i.f. European imports, a price difference which cannot be attributed to differences in quality only.

30. A removal of the import duty and the quota would almost certainly lead to increased offers at world market prices and hence to a considerable reduction in domestic prices in the United States. There would be a tendency for increased consumption at lower prices, but this tendency is somewhat mitigated for various reasons.

31. In the United States there is virtually no consumption of groundnuts in the form of oil; these are mainly consumed either as peanut butter or in nut form. At lower prices there would be a considerable increase in demand (the elasticity of demand for shelled peanuts with respect to prices at the farm level is estimated at 0.4 to 0.5). Imported groundnuts would, therefore, not only partly substitute domestically produced nuts in these traditional uses, but also successfully compete for a share in this increase in consumption. However, it should be noted that about half of the traditional consumption is constituted by larger sized varieties, which could be produced by foreign suppliers only after a certain delay.

32. Furthermore, in the production of margarine and shortening, soya bean oil and cotton seed oil are the essential component elements. Because of the strong competitive position of soya bean oil and cotton seed oil, it seems unlikely that soya bean oil and cotton seed oil would to a significant extent be replaced by groundnut oil.
33. Despite these limitations it seems evident that appreciable increases in low priced imports of groundnuts would lead to a considerable increase in price-support purchases and would materially interfere with the present United States price-support system. It seems unlikely that in such circumstances the support price programme would continue unchanged. A system of direct aids to the United States groundnut producers or a reduction in support price to a level competitive with the prices of imported groundnuts seem conceivable alternatives. In both cases the United States domestic price for groundnuts would tend to become competitive with world market prices. In the case of direct aids which maintain present income, there would be little incentive for a decline in production so that imported groundnuts would tend to compete more especially for any increase in demand. In the case of a decrease in support, a decrease in output and consequently, higher demand for imports is likely, only if the stringent acreage controls were continued. It could be argued, however, that if the acreage control were discontinued, a shift of production to more profitable regions could involve an increase in total production.

34. Without going into further details as to possible alternatives, it may be concluded that a removal of barriers in the case of groundnut oil would not be likely to lead to significantly increased imports. In the case of groundnuts appreciable increases in imports are possible. These may be, however, partly off-set by changes in the price support system, although imports would in any case share significantly on the long-term in an increase in demand.

35. Imports of palm oil, palm kernels and palm kernel oil are free apart from a duty of $0.05 per lb. on undenatured palm kernel oil. (A general processing tax of $0.03 per lb. has been suspended until 1 July 1963.) The incidence of the import duty amounts to less than 1 per cent. A removal of this barrier would, therefore, have no significant effects.

36. In respect of copra, no customs duty is applied, the tariff on coconut oil amounts to $0.01 per lb. (an increase of about 8.6 per cent in 1961), but imports from the Philippines up to a tariff quota of 160,000 long tons per year, are free. In addition, copra and coconut oil from sources other than the Philippines and the United States Pacific Trust Territories are subject to a processing tax of $0.02 per lb. of oil, or about 17.3 per cent on the price of oil in 1961. Since actual coconut oil imports from the Philippines are well below the quota figure, the total preference amounts to about 27 per cent in the case of coconut oil and 17 per cent for copra (1961 basis). For both products practically all imports are derived from the Philippines, which would indicate that the preferential margin provides a sufficient incentive to buy in the preferential area. While in the case of the United Kingdom preferences, it was felt that price differences due to the preference were only marginal, it would seem that in the case of the United States this price difference is more appreciable. A comparison of copra prices, Philippine, bulk, c.i.f., nearest forward shipment European port with Philippine, bulk, c.i.f., Pacific coast indicates a premium in favour of the latter of 5.6 per cent as average over the years 1957-1961. This price premium can only partly be explained as a consequence of high transport costs.
37. The effect of the removal of the tariff and the processing tax would be some reduction in the import price of copra and coconut oil through the possibility of increased competition from other suppliers. An increase in demand at lower prices may be anticipated, in particular in the use of coconut oil for speciality food uses. It is not likely, however, that the United States soap industry, as the major user of copra and coconut oil, will increase its demand significantly, since already over 90 per cent of vegetable oils used in soap making is comprised of coconut oil. Only very marginal further usage of coconut oil instead of tallow, palm oil or palm kernel oil could be expected.

38. To the extent that the price difference is a consequence of the preference vis-à-vis the Philippines, the removal of this preference would result in a decrease in income by the Philippines exporter through increased competition from non-preferential suppliers. A decrease in export earnings would not be compensated by a sufficient increase in the volume of sales to the United States. Although some compensation might be found in increased outlets to other countries, it would seem doubtful whether on the whole the loss of preference would be offset by such increased sales. In view of the predominant share of copra and coconut oil exports in the total export earnings of the Philippines and the fact that the major share of the copra and coconut oil exports (45 per cent) are directed to the United States, such a loss in export earnings would have an appreciable incidence on the Philippines' economy.

(f) Japan

39. Japan ranks as the sixth largest importing country of vegetable oils and seeds in the world. The main proportion of its imports consist of soya beans. Tropical oils account for approximately 20 per cent of its total oils and seeds imports. Japan has a small but expanding groundnut production principally for domestic consumption, in addition to which some small amounts of groundnuts are imported. Imports of groundnuts and groundnut oil are restricted. The import duty on groundnuts amounts to 14 yen per kg. (20 per cent incidence) and on groundnut oil to 30 yen per kg.

40. Imports of copra and coconut oil and of palm kernel oil and palm oil are liberalized. The import duty on the oils amounts to 10 per cent, copra is free from duty and palm kernel imports are subject to a duty of 4.60 yen per kg. There are no imports of coconut oil.

41. Japan has an important production of soya beans, which declined somewhat during the 1950's. It has also an important rape-seed production which had its highest output in the years 1956 and 1957. Rape-seed oil and soya bean oil are used almost entirely for the manufacture of edible oils. Rape-seed and soya bean production are supported at prices at a level about 20 to 25 per cent higher than the price of imported products (average 1956-58); the domestic market price of these products is about 30 to 35 per cent higher than the c.i.f. import price.
42. It seems most likely that a removal of barriers on imports of tropical oilseeds and seeds would have appreciable effects. Imported tropical oils would, in the present price structure, become important competitors for domestic soya bean and rape-seed oil in the manufacture of cooking oils.

43. It would seem unlikely that the price support of rape-seed and soya beans could be maintained at the present level and unless the price support were replaced by an income support system, the tendency would be to decrease production in regions, where alternative use of the soil is possible. In more profitable producing areas, however, the tendency could be to improve the efficiency to such an extent that increased yields could more fully compete with imported products.

44. Similarly, the production of groundnuts would be affected. Groundnut producers do not receive a price support but prices are kept at a remunerative level by regulating imports. A decrease in price might well lead to a fall in production with consequentially enlarged opportunities for imported groundnuts.

45. Although, it is difficult to make reliable assumptions on the trend of total production, depending on possible offsetting measures, it would seem likely that a reduction in consumer prices would lead to increases in consumption of vegetable oils. The per capita fat consumption in Japan is still very low as compared to European and North American countries, but is steadily expanding. The major share of such increase in consumption, following the removal of trade barriers would most likely be met from imported vegetable oils and seeds.

46. Finally, a removal of the trade barriers would have an appreciable effect on the present import pattern, so that the proportion of seed imports would tend to decrease. This could have certain consequential effects on the crushing industry.
III. Conclusions

47. In the foregoing, possible effects of a removal of trade barriers in tropical oil seeds and oils have been considered in some detail in respect of the major tropical oils and seeds, which account for 90 per cent of exports of vegetable oils and seeds from tropical countries. The countries considered are the main importers of tropical vegetable oils and seeds and account for about 85 per cent of total world imports in the case of oil palm and coconut palm products and more than 70 per cent in the case of groundnuts and groundnut oil.

48. Trade in tropical oilseeds in the major importing countries is generally free from quantitative restrictions, the principal exceptions being the United States quota on groundnuts, and restrictions maintained by France and Japan. Tariffs on oilseeds in these countries are also generally moderate again with the exception of the United States tariff on groundnuts. The Japanese tariff on groundnuts is also substantial with an incidence of 20 per cent in 1960. Internal taxes on tropical oilseeds are imposed in several of the countries considered.

49. The situation with regard to crude and refined tropical oils is more complex. Quantitative restrictions on imports exist in France, Germany and Japan but all the countries considered levy differential duties on processed oils except in instances related to trade with preferential suppliers. Internal taxes on tropical oils are important in certain countries.

50. In general it might be concluded that the existence of barriers on the import of tropical oils and seeds has the effect of maintaining internal prices of these products at a level higher than they would otherwise be. Such higher prices have a price increasing effect on substitutable products (domestic or foreign) and in a number of cases import barriers, in particular internal taxes, are maintained for the purpose of providing a price support either to domestic producers of the same or substitutable products (including butter) or to preferential suppliers of such products or both.

51. If a tariff only is applied, the price difference tends to be near the height of the tariff. Where preferential tariffs are applied, the trade directive effect of the preference is generally very strong; the price difference, however, is generally substantially lower than the amount of the preferential margin and in a number of cases hardly noticeable. Where in addition to the tariff, non-tariff measures are applied (whether preferential or not) the price differences are more substantial.

52. The immediate effect of a removal of import barriers would, therefore tend to be a reduction in import prices by the mere fact that the import prices would no longer be increased by the amount of the duty or in the case of sheltered markets by the fact that these markets would now be opened up to increased competition from non-preferential suppliers. In the case of the United Kingdom it was felt, however, that any price reduction would only be very marginal.
53. The immediate benefit of such a price reduction would go to the domestic consumer in the importing country.

54. A reduction in price of tropical oils and seeds, would tend to make these products more competitive with substitutable fats; it would tend to change the price relationship vis-à-vis non-tropical oils and animal fats and would, therefore, with certain limitations, tend to lead to increased demand for tropical oils and seeds.

55. A number of such limitations have been noted. For certain usages the consumption of tropical oils seems to have reached saturation point. There would, on the whole, be nothing gained if a tropical oil merely replaced another tropical oil. A reduction in prices of tropical oils would tend to force prices of substitutable oils down so that increases in demand for vegetable oils generally would have to be shared with other substitutable products. Consumer preference for certain oils in particular uses could be another factor tending against increased utilization of tropical oils.

56. These limitations lead in a number of cases to the conclusion that increases in usage of tropical oils would generally be only marginal. For some countries it is felt that significant increases in demand could be expected. Without attempting to make a quantitative assessment it might, therefore, be concluded that on the whole the removal of barriers on imports of tropical oils and seeds would tend to increase present outlets for these products.

57. This conclusion must, however, be reconsidered in view of the medium term prospects for both demand for and production of vegetable oils and seeds. Since the total demand for oils and fats in Western Europe, which is the main importing area of tropical oils, is increasing by no more than 2 per cent annually and since the annual rate of increase of demand for vegetable oils in this area is estimated at just over 1 per cent, it may be concluded that the relative share of vegetable oils in the total supply of oils and fats is tending to decrease. Within this decreasing proportion, prospects for imports of tropical seeds and oils are even less promising, because of the competitive strength and expected increase in proportion of soyabean and soyabean oil. The proportionate share of tropical oils and seeds may, therefore, tend to decrease even more in relation to non-tropical substitutable oilseeds and oils and animal fats. A removal of import barriers on tropical oils and seeds would however, support the competitive position of these products vis-à-vis substitutable oils and animal fats and thus tend to mitigate these unfavourable tendencies.

58. In countries where total per capita fat consumption has been so far relatively low, prospects are more favourable as regards total demand for vegetable oils, but here also competition from non-tropical vegetable oils is growing. Although increasing in volume the proportionate share of tropical oils in total vegetable oils' supply may also tend to decline. A growing demand for vegetable oils could presumably be expected in some Southern European countries, in Japan and probably most of all in certain low income countries. In the latter countries a removal of trade barriers on
tropical oils could, in view of the difficult foreign exchange position of these countries, probably only be envisaged if increased imports of tropical oils were to be compensated for by increased exports of goods from such countries to other countries including the countries exporting tropical oils.

59. In some countries certain vegetable seeds are produced under agricultural price support; in some countries import barriers are maintained for the purpose of protecting such production. Increased price competition from tropical oils would necessarily have an impact, in some cases substantial, on the domestic production of vegetable seeds and oils and on substitutable products. It may be expected that the removal of barriers on imports of tropical oils and seeds would lead to a review of support and protective policies. The extent to which measures tending to maintain domestic production of vegetable seeds and substitutable products mitigate the effects of the removal of trade barriers for tropical oils, would constitute a distinct limitation to an increase in outlets for tropical oils.

60. A removal of trade barriers on tropical oil imports would increase competition with the crushing industry in industrialized countries, particularly in cases where this industry is protected by means of differentiated tariffs. The increased competition would come both from the crushing industries which are developing in primary producing countries (especially as regards groundnut oil) and from existing industries in other industrialized countries. Although no attempt has been made to assess the relative competitiveness of the crushing and refining industry in a particular country, it is felt that the close proximity of large markets both for oils and by-products is a particularly favourable factor. Where protection of the crushing industry is maintained mainly to protect the industry against imports of oils at prices which are out of relation to world market prices of seeds, the removal of trade barriers including measures affecting exports would contribute to an elimination of such price distorting effects and hence to the necessity of maintaining protection.

61. In the case of preferential markets, a price reduction made effective through increased competition from non-preferential suppliers, would tend to decrease the income of former preferential suppliers.

62. In the case of France, estimates have been given of the amount involved in such preferential price differences. The existence of long established trading relations might tend, in the short run, to reduce the tendency to import from non-preferential sources, especially where price changes are small.

63. It can be assumed that where the existing price differential in favour of preferred suppliers is substantial, the immediate loss would not be sufficiently compensated for by increased sales to other markets.
64. In countries where exports of tropical oils constitute a substantial proportion of their total export earnings, such a reduction in export income would most likely have severe effects on their overall economy. This would apply particularly to certain franc zone countries and to a much lesser extent to the Philippines.

65. In some cases this loss might be offset by means of improved marketing or by increased investment aimed at the acceleration of the diversification of the economies and exports of the countries concerned, although external assistance might well be necessary in particular instances to secure the investment funds required.