GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

22 March 1960

COMMITTEE III - EXPANSION OF TRADE

Draft Report

Attached for the consideration of the Committee are secretariat drafts on some of the commodities so far studied by the Sub-Committees (coffee, cocoa, tea, timber, copper and vegetable oils). Although the general form of the Committee's report has not yet been agreed, it is assumed that commodity notes will find some place in the final report, either in the body of the report or as an annex to the report.

Spec(60)48

COFFEE

The Committee, in conducting its further examination of the points raised in the second report of the Committee in relation to this commodity, had in mind the following considerations. Coffee was the second largest product in international trade, was produced in, and exported by, fourteen countries in Latin America, two countries in Asia and a number of dependent territories, accounted for more than 70 per cent of the foreign exchange earnings of at least four countries and for more than 40 per cent of the exports of two other countries and dependent territories and was produced exclusively in less-developed countries. The Committee had in mind also that world coffee prices had been steadily declining over recent years and were now at roughly 40 per cent of the level prevailing in 1954, i.e. about the same as the 1929 level and that there was now a substantial world surplus of coffee production.

The Committee agreed that the solution to world coffee problems must be found in increasing consumption rather than in restriction of exports. In discussion on factors affecting consumption levels and the effects of these on the exports of less-developed countries, the Committee again noted in particular the level of internal taxes operating in France, Germany and Italy. These taxes, together with the tariff rates imposed and, by relating the specific duties and taxes to the average import prices prevailing in the first half of 1959, resulted in an overall level of taxation on imports of coffee into these countries, expressed in ad valorem equivalents, of 77.5 per cent, 107.8 per cent and 114.6 per cent respectively. The Committee noted the estimate of the coffee producing countries that there would be an increase of 10-15 per cent in consumption in Western Europe if internal taxes were decreased. In this connexion, the Committee welcomed a statement from the representative of the Federal Republic of Germany that a Bill proposing the reduction of internal consumption taxes on coffee was at present under consideration by the Parliament of the Federal Republic. The Committee noted that such studies in measuring the price elasticity of demand as were available revealed divergent views on the degree of elasticity, but that nevertheless all these studies were agreed that the price at which coffee could be marketed in most industrialized countries was high and that there was price elasticity in the sense that if there were reductions in overheads, internal taxes, retail margins, etc., there was scope for increased consumption of coffee.

Members of the Committee stressed the need for a long-term stabilization agreement to follow the one-year international agreement at present in force. The Committee noted that the present agreement provided for studies to be made on the long-term problems of coffee and that the Coffee Study Group had recently awarded contracts to private agencies to carry out these studies. As to immediate prospects for expansion of trade in coffee, however, the Committee noted that since their previous examination no changes, such as would facilitate an early expansion of the export earnings of the coffee producing countries, had been made in the measures applied by importing countries. They again stressed the need for urgent examination by contracting parties, especially industrialized countries, of the possibility of taking action, where feasible, to afford rapid relief to coffee producing exporters.

COCOA

The Committee, in conducting its further examination of the points raised in the second report of the Committee in relation to this commodity, had in mind that more than 60 per cent of the revenue of one less-developed country was derived from exports of cocoa and that, despite efforts to diversify its economy, this country would continue for many years to be dependent on exports of this commodity as a major source of revenue. They noted also the importance of cocoa exports for a number of other less-developed countries and dependent territories. The Committee had in mind also that world production of cocoa was increasing and that, although it was possible at the present time for the major producing country to market all its cocoa harvest, there had been heavy reductions in world market prices for cocoa in the last two years and there was need for expanded markets for the substantial world supplies of cocoa which were now available and which were expected to show a considerable increase.

In the discussion on factors affecting consumption levels and the effects of these on the exports of less-developed countries, the Committee again noted the level of internal taxes operating in some Western European countries, particularly in Italy where a revenue duty equivalent to 69 per cent ad valorem was applied. The Committee noted that since their previous examination no changes, such as would facilitate an early expansion of the export earnings of the cocoa producing countries, had been made in the measures applied by importing countries.

The Committee again noted the differential tariff rates applied in most industrialized countries against import of cocoa products as against raw cocoa. In this connexion, they noted that the recently agreed rates for cocoa products in the common external tariff of the European Economic Community were 22 per cent for cocoa butter, 25 per cent for cocoa paste and 27 per cent for unsweetened cocoa powder as against 9 per cent for cocoa beans. The Committee agreed that in general differential tariff rates might constitute an element of discouragement to the development of processing industries in the cocoa producing countries. In this connexion, they also noted that some industrialized countries applied more stringent quantitative restrictions against imports of cocoa products than those applied in respect of cocoa beans. The Committee were aware that the substantial protection accorded to domestic processors in some industrialized countries was against the products of other industrialized countries. The main producers and exporters of cocoa powder, for example, were the countries of Western Europe and North America, and the risks to domestic processors in industrialized countries from exports of processed products from less-developed countries could be considered negligible. The Committee agreed that a reduction of duties for cocoa products might result in increased consumption and thus be of indirect benefit to producers of raw cocoa.

TEA

The Committee, in conducting its further examination of the points raised in the second report of the Committee, had in mind the importance of exports of tea to several less-developed countries. The Committee had in mind also that world tea prices had been declining over recent years and that the surplus of world supplies of tea would continue in the future.

The Committee agreed that the solution to world tea problems must be found in increasing consumption rather than in restriction of exports. In discussion on factors affecting consumption levels and the effects of these on the exports of less-developed countries, the Committee again noted the level of import duties and the revenue duties and internal fiscal charges applied in a number of countries, particularly in some Western European countries. Because of the long-term downward trend of tea prices the incidence of these taxes, since they were in most cases specific, had not decreased over recent years; furthermore, these taxes impinged exclusively on imports from less-developed countries as there was no domestic production in the countries imposing the taxes. The Committee noted also that in no case did import duties and internal taxes on tea represent more than a very small fraction of overall budget receipts of industrialized countries. The Committee agreed that there were a number of factors affecting consumer taste but, while it was not possible to establish a close and regular correlation between consumption and price levels, there was nevertheless a long-term relationship between the two. They agreed that in general the high level of revenue duties and internal charges on tea in some primarily coffee drinking Western European countries would constitute an element of discouragement to advertising campaigns directed towards increasing consumption of tea and some share for tea in the rising demand for all beverages in Western Europe. In this connexion, the Committee again noted the duty of 35 per cent ad valorem proposed for the European Economic Community common tariff, which related more closely to the present tariffs of Germany and France where tea was not commonly consumed than to the present tariff of the Netherlands where tea was a popular beverage.

As to immediate prospects for expansion of trade in tea, the Committee noted that since their previous examination, no changes, such as would facilitate an early expansion of the export earnings of the tea producing countries, had been made in the measures applied by importing countries. They again stressed the need for urgent examination by contracting parties, especially industrialized countries, of the possibility of taking action, where feasible, to afford rapid relief to tea producing exporters. In this connexion the Committee welcomed a statement from the representative of the Federal Republic of Germany that a Bill proposing the reduction of internal consumption taxes on tea was at present under consideration by the Parliament of the Federal Republic.

TIMBER

The Committee, in conducting its further examination of the points raised in the second report of the Committee in relation to this commodity, had in mind the importance of timber exports for a number of less-developed countries and dependent territories. While noting that the difficulties encountered by timber exporters were not so acute as those encountered by exporters of some of the other products under consideration by the Committee, they nevertheless noted that since their previous examination no changes, such as would facilitate the early expansion of the export earnings of the less-developed timber producing countries, had been made in the measures applied by importing countries. They noted in particular the discrimination which still existed against certain areas and in favour of OEEC countries in the application of quantitative restrictions and stressed the need for the rapid abolition of the remaining discrimination. The Committee noted also the concern expressed by less-developed countries at possible increases in tariffs in the common external tariff of the European Economic Community.

COPPER

The Committee, in conducting its further examination of the points raised in the second report of the Committee in relation to this commodity, recognized that in the interest of diversifying their economies and in order to increase their foreign exchange capacity, less-developed countries wished to establish or expand industries for the processing and export of locally produced copper. The Committee agreed that, provided these countries were able to establish an efficient and competitive copper refining industry, the industrialized countries should not, through barriers to trade, make access to their markets difficult and should give the copper processing industries of less-developed countries an opportunity of entering into competition with refined copper from other sources. In this respect, the Committee noted that in some cases countries operated much higher duties on processed copper than on raw copper. Without carrying out a detailed study on the extent to which such high duties affected the expansion or establishment of refining industries in less-developed countries, the Committee was aware that in general such differential duties might result in impeding or at least retarding the development of copper processing industries in the copper producing countries. It therefore stressed the positive effect which an abolishment of the system of differential duties in the tariffs would represent and recommended that copper importing countries should give full attention to that problem.

In the view of most members of the Committee, commercial policy measures - apart from the above-mentioned specific points - were not unduly hampering the trade in copper. Many difficulties for copper producing countries arose from facts which were not directly connected with commercial policy, such as price fluctuations, changing patterns of consumption, increased use of copper substitutes, etc.

The representative of one major copper exporting country, however, could not share the point of view of the majority of the Committee. In particular, he disagreed with the findings of most members of the Committee that the tariffs on copper and copper products were moderate. In his view, the import duties of certain countries were high enough to represent serious obstacles to trade on the one hand and to protect marginal producers on the other hand. Furthermore, the operation of preferential tariff systems by certain countries had an adverse effect on the copper exports of his country. The customs duties on copper represented a barrier to trade in such products all the more since they encouraged the consumption of substitutes for copper and thus resulted in a loss of markets for copper products.

With regard to the adverse effects on the trade of less-developed countries which could result from the release of copper from stockpiles in industrialized countries, the Committee noted that this problem was not at present acute. It nevertheless recognized that the desirability of consultations before such release, as recommended in the Resolution of 4 March 1955 by the CONTRACTING PARTIES (BISD, Ninth Supplement, page 51) was still valid and should be stressed.

OILSEEDS AND VEGETABLE OILS

The Committee examined the factors affecting the international market for oilseeds and vegetable oils and in particular the measures which had been identified in the second report of the Committee (COM.III/12/Rev.1) as restricting the export earning capacity of less-developed countries in respect of these commodities. The Committee recognized that the solution to the problem of expanding the export trade in these commodities was made more difficult because there existed a potential world surplus capacity for the production of oilseeds and vegetable oils which was further aggravated by the surplus conditions characterizing the world market for other products, such as dairy fats and other animal fats which were competitive with and substitutes for vegetable oils. Furtheremore, since production was spread over a large number of countries, including industrial countries, some of which were also large exporters of these commodities, less-developed countries might not necessarily reap the full benefit of measures designed primarily to increase their export earnings. On the other hand, the Committee recognized the urgent need of less-developed countries to increase their foreign exchange earnings and it was realized that many of these countries would continue to depend for part of their export earnings on the production of oleaginous fruits because climatic and general economic conditions were favourable both in terms of yield per unit of land and in terms of alternative uses for other factors of production.

Having in mind the above considerations the Committee noted that the export trade in oilseeds, and especially the trade in the processed product, was in many instances limited by a high degree of protection which operated both through tariffs and to a marked extent also through quantitative restrictions, State-trading practices, mixing regulations and other measures. It appeared that protection was afforded not only to agricultural producers of these commodities and to the vegetable oil producing industry in importing countries, but often was imposed also on behalf of producers of substitute commodities. The Committee agreed that the widespread differentiation in import treatment, according to the stage of processing, in favour of imports of the raw material was on the whole a factor unfavourable to the development of oilseed processing industries in less-developed countries. The Committee noted in this connexion that vegetable oil exports from less-developed countries were in most instances only a small proportion of oleaginous raw material exports from these same countries. On the other hand some industrial countries which did not have a domestic raw material base for the production of certain vegetable oils were nevertheless important exporters of these oils. One member of the Committee pointed out that the differential treatment in the import of raw materials and processed goods often led to unsatisfactory levels of utilization of installed capacity for countries such as Brazil which had had an oil crushing industry for some considerable time and which lacked neither the know-how nor the technical resources for efficient production. Commenting on world levels of production of oilseeds and vegetable oils, one member of the Committee referred to the operation in some countries of support measures for these commodities and to the effects of such policies on export markets. He referred to the discussion on this subject in Committee II which had taken place for example in connexion with the consultation on agricultural policies with the United States (Spec(60)22). It appeared from these discussions that such price support measures might lead to export surpluses, thus unfavourably affecting the export market of less-developed countries.

The Committee took note of the proposed level of the common external tariff of the EEC for vegetable oils and welcomed the statement by a representative of the Community that oilseeds would be admitted duty free and that the common tariff was to be lower than the rate which would have been applied had the tariff been calculated on the arithmetical average of national tariffs of Member countries in force on 1 January 1957. One member of the Committee pointed out, however, that the proposed common tariff on vegetable oils was still high and that it was an illustration of the differential treatment of raw materials and processed products which limited the export earning capacity of less-developed countries. He noted with satisfaction, however, that the EEC would continue to take into account and be sympathetic to the need, particularly of less-developed countries, to increase their export earnings. In the discussion of mixing regulations in force in several countries, the representative of the Federal Republic of Germany stated that his Government had suspended for the months of June, July and August the mixing regulation, which required that in the production of margarine, 5 per cent of the fat content be derived from domestically produced rapeseed. He added that this regulation affected only a very small part of imports of vegetable oil products and that it was hoped that the regulation could eventually be altogether abandoned.