GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

Spec(82)19/Rev.1
11 June 1982

PROGRAMME OF CONSULTATIONS ON TRADE LIBERALIZATION

COFFEE AND COFFEE PRODUCTS

Informal record prepared by the secretariat

Revision[1]

1. The consultation on coffee and coffee products, the first in the Programme of Consultations on Trade Liberalization, was held on 1 March 1982 under the Chairmanship of Ambassador F. Jaramillo (Colombia).

2. As a basis for the consultation, the secretariat had prepared document COM.TD/W/328 and Add.1 containing detailed information on the commercial policy situation, trade flows, consumption and other factors affecting trade in coffee.

3. This informal record includes general comments concerning the Programme of Consultations.

Introductory comments concerning the programme of consultations

4. Many representatives recalled that, in accordance with the Chairman's summing-up at the November 1981 meeting of the Committee on Trade and Development (L/5253, paragraphs 38-44), the programme of plurilateral consultations was designed to move the work of the Committee on trade liberalization in the areas of tropical products and quantitative restrictions "to a stage aimed at a more systematic identification and analysis of trade problems and examination of the possibilities for, and ways of, making further progress". Some representatives urged that, in so doing, the Programme of Consultations should attempt to reach conclusions that could be of use in the context of the preparatory work for the forthcoming Ministerial Session of the CONTRACTING PARTIES. Some representatives of importing countries said that the guidelines for the consultations, as determined by the Committee on Trade and Development, made it clear that the consultations could not be regarded as a negotiation or even a pre-negotiation.

[1] The revision takes into account comments made by delegations after the consultations.

5. Representatives of a number of importing countries stressed the importance they attached to the participation of all developed importing countries, particularly those with relatively low levels of per capita consumption of the products under consideration.

6. The representative of the European Communities outlined the progress that had already been made in opening the Community market for tropical products. The GSP covered most tropical products and was improved annually. A large number of developing countries benefited from duty-free access under the Lome Convention which also provided for a mechanism to stabilize export earnings from certain tropical commodities. In addition, a considerable effort had been made in GATT, most recently in the Tokyo Round, to reduce and bind m.f.n. duties. He said that the Community approached the consultations with an open spirit and hoped that they would lead to a clear identification and understanding of the trade problems that continued to exist.

7. The representative of New Zealand noted that few developing country exporters had responded to the invitation contained in Spec(82)1, to indicate in advance to the importing country concerned the points they would wish to raise in the consultations. This situation created problems for small delegations such as his in their preparations for the consultations. He added that he was looking forward to receiving the record of the consultations on each of the products being examined so that his authorities could be informed of any points which might pertain to the commercial policy of New Zealand.

General comments on trade in coffee

8. Representatives of a number of coffee exporting countries emphasized the importance of coffee exports as a source of foreign exchange earnings to their countries and of income and employment to their peoples. They referred to the weak state of the international coffee market. Coffee prices were being supported at their present unsatisfactory levels by export quotas under the provisions of the International Coffee Agreement that entailed sacrifices on the part of producing countries. They expressed the view that in these circumstances it was all the more urgent that importing countries should remove all obstacles to increased consumption of coffee.

9. Representatives of some importing countries said that considerable progress had been made in liberalizing trade in coffee, most recently in the Tokyo Round. In stressing the openness of their markets, some of these representatives referred to the present high per capita consumption in their countries and noted that there were large differences in per capita consumption between countries. They expressed their regret that a number of European countries with low levels of per capita consumption of coffee had not taken advantage of the invitation to participate in the consultation on coffee and coffee products.

Clarifications and additional information

10. The representative of Canada said that with effect from 13 November 1981 the import duty charged under the GSP on extracts, essences and concentrates of coffee (CCCN ex 21.02) had been reduced to

zero. While this change was already in force, it still awaited formal approval by the Canadian Parliament.

11. The representative of Japan said that since 1980 considerable efforts had been made to promote coffee consumption in Japan. In fiscal year 1981/82, the All Japan Coffee Association had allocated some 280 million yen for promotional purposes.

Tariffs

12. Some representatives of producing countries said that there were two main types of tariff problem facing their exports. First, certain developed importing countries, such as the European Communities, Finland and Switzerland continued to charge duties on imports of green coffee. Secondly, in a larger number of markets, including Austria, the European Communities, Japan and Finland, there was significant tariff escalation faced by their exports of coffee in more processed forms. In their view, a reduction of tariff escalation in accordance with the provisions of Part IV would facilitate the development of the coffee processing industry in producing countries, a natural industry for those countries, and thereby stimulate their economic development in general. In addition, they noted that certain tariffs which were set at zero were not yet bound, such as on instant and soluble coffee in the United States.

13. The representative of Finland said that the low customs duty on imports of green coffee - presently 4.7 per cent and due to fall to 3.8 per cent in accordance with the normal staging for Tokyo Round tariff concessions - had not prevented Finland from having the highest per capita consumption in the world. The duty was more appropriately regarded as an instrument of internal market price stabilization that created conditions favourable for consumption, than as an obstacle to trade. When world market prices were high, the duty was generally suspended, as it had been for several years during the 1970s. He also noted that imports from least-developed countries were free of duty.

14. The representative of the United States said that imports of raw and processed coffee were subject to no customs duties or non-tariff barriers in the United States. He noted the concern expressed in regard to the absence of a binding on the zero import duty on instant or soluble coffee.

15. The representative of the European Communities noted that the main forms of coffee internationally traded were green coffee and instant coffee; other forms of processed coffee, such as decaffeinated coffee figured little in trade flows. He said that the EEC import duty on green coffee had been reduced to a very moderate level with a consequent curtailment of the margin of preference enjoyed by ACP coffee exporters. Nevertheless, this margin remained important for those countries, a large proportion of which were among the least-developed countries. As regards instant coffee, a major effort had been made under the GSP by the extension of a large preferential tariff quota at half the m.f.n. rate (9 per cent rather than 18 per cent). Imports from GSP beneficiaries had only once exceeded the amount of the preferential quota. Developing country exports of instant coffee to the Communities had greatly expanded and Community producers had lost a substantial part of the EEC market; six factories had

been closed in recent years. Noting that GSP imports of instant coffee continued to come predominantly from one supplying country, he expressed the hope that other developing countries would be able to take advantage increasingly of the preferential access offered. Referring to the accession of Greece to the European Communities, he said that as a result Greek import duties on green and instant coffee would be substantially reduced over the next four years as the Greek customs tariff was harmonized with the Community's common external tariff.

16. The representative of Switzerland said that the ad valorem incidence of the specific import duties on raw coffee and instant coffee was approximately 5-6 per cent. These duties were only fiscal in intent and effect, and not protective. The protective element on instant coffee had been removed under the GSP; the preferential rate corresponded to the duty on green coffee. Since coffee consumption in Switzerland was highly inelastic with respect to price, he considered that these import duties had no effect on consumption.

Internal taxes

17. Representatives of a number of developing countries expressed their concern about an apparent increasing move on the part of coffee importers to apply tax measures that would hinder coffee consumption, despite international undertakings in Part IV of the GATT and Article 48 of the International Coffee Agreement. In this respect, reference was made to the internal taxes applied in Denmark, Italy, the Federal Republic of Germany and Japan, to the excise taxes introduced in Belgium and Luxembourg on 1 September 1981 and to reports concerning the possible reclassification of coffee in the Netherlands from a 4 per cent to an 18 per cent tax category.

18. The representative of the European Communities said that the European Communities included some of the countries with the highest per capita coffee consumption. There had been a general upward trend in coffee consumption in the EEC, with that trend tending to be most marked in those countries applying internal taxes. He said that many factors affected coffee consumption and trade flows including, for example, national and international promotional efforts, competition from other beverages, quality and changing national tastes. In regard to Italy, he noted that since the specific tax had remained unchanged in terms of lira for a number of vears, its effective incidence had greatly fallen with the declining value of that country's currency.

19. The representatives of Denmark and the Federal Republic of Germany said that there was no evidence of any link in their countries between the internal taxes charged on coffee and the level of coffee consumption. The price level within quite a broad range was only a marginal influence on coffee consumption in their countries. The representative of Denmark said that in his country consumption, after falling in 1977 due to the very high world market prices in that year, had subsequently steadily increased. He further stated that his country was aware of its international commitment and would abide by it. The representative of the Federal Republic of Germany said that per capita consumption had risen steadily to reach 7 kg. in 1981, compared with 4.9 kg. in 1970. His Government had strictly fulfilled its MTN undertaking regarding internal taxes; the tax on coffee had not been increased despite budget difficulties and increases in the taxes on other goods.

20. The representative of Belgium said that internal taxes had been imposed on coffee for fiscal reasons, because of the great budgetary difficulties his Government was facing. He was convinced that coffee consumption would not be adversely affected by the 2 or 3 per cent increase in the retail price of coffee that the tax had led to. He said that, nevertheless, he had taken note of the concern expressed by the producing countries and would report it to his authorities.

21. The representative of the Netherlands said that there were no selective internal taxes on coffee in the Netherlands.

22. The representative of Japan said that he also doubted that there was any linkage between coffee consumption and the 5 per cent internal tax on coffee in his country. Coffee consumption in Japan had shown a continuous tendency to rise.

23. Representatives of some producing countries said that they did not agree that internal taxes had no effect on consumption. What was important in their view was not just whether consumption was already high but whether consumption would be higher in the absence of the taxes. The increase in coffee prices in 1976/77 and their subsequent fall had shown that coffee consumption was indeed responsive to price. They welcomed the statement by the representative of Denmark that his country had no intention to raise the internal taxes on coffee, and expressed the hope that the efforts underway in the context of the International Coffee Organization to find a solution in regard to the Belgian measures would be successful.

Other non-tariff measures

24. Reference was made by representatives of some producing countries to the import licensing applied to certain types of coffee by New Zealand.

Possibilities for further progress in trade liberalization

25. Representatives of some producing countries said that, in general terms, they would like to see the elimination or substantial reduction of all customs duties on coffee, the removal of tariff escalation on processed coffee, the binding of m.f.n. duties that were not already bound and the elimination of internal taxes applying to coffee. These representatives also said that in the EEC market they would wish to benefit from the same customs treatment as was currently extended to the ACP States.

26. Importing countries were requested by certain producing countries to study a number of specific suggestions for improved treatment. They were:

- Austria: reduction of GSP on solid extracts of coffee from 10 per cent to 5 per cent;

- EEC: on solid extracts of coffee, reductions in bound m.f.n. duty from 18 per cent to 9 per cent, and in GSP from 9 per cent to free;

- Belgium, Denmark, Germany F.R., Italy and Japan — elimination or substantial reduction of internal taxes;
- Finland: — removal of duty on raw coffee;
- Japan: — reduction of duty on instant coffee from 17.5 per cent to 9 per cent;
- Netherlands: — no increase in the internal tax on coffee;
- Switzerland: — removal of m.f.n. duties on green coffee and reduction of GSP rate on solid extracts of coffee to free;
- United States: — binding of zero duty on instant coffee.

They indicated that the above list should not be regarded as exhaustive and that additional requests might be made subsequently.[1]

27. Representatives of a number of importing countries recalled their views concerning the scope and purpose of the Programme of Consultations. They said that at this stage they could make no commitments. Some of these representatives said that the major problem for coffee was one of price rather than market access and that priority should be given to ensuring the effective functioning of the International Coffee Agreement. The representative of the European Communities said that it was necessary to take into account the interests of ACP countries particularly as thought was now being given to the preparations for the negotiations for Lome III. As regards instant coffee, for which the preferential quota had generally not been completely taken up, improvements to the GSP scheme were considered during the Community's annual review of the GSP.

---

[1] The delegation of Colombia notified the following additions to the list:

- EEC — unroasted coffee not freed of caffeine - reduction of m.f.n. duty
- Finland: — advance implementation of the final Tokyo Round concession rate on raw coffee; inclusion of coffee extracts in the GSP
- Japan: — inclusion of instant coffee in the GSP.

28. The representative of the United States said that the principal legislative authority to negotiate trade concessions had expired on 3 January 1980 and the residual negotiating authority under Section 124 of the Trade Act of 1974 on 3 January 1982. However, certain bills had been introduced into the United States Congress that, if enacted, would extend Section 124 authority. If this authority was extended, the United States would be in a position to consider entering into tariff negotiations at the request of individual developing countries on items of interest to them. He invited participants in the consultations to indicate where they would be interested in such a process. He said that the negotiating authority would not enable the United States to make unilateral concessions - concessions would have to be negotiated on both sides. He added that normally negotiations were more effective when they covered a number of products and suggested that delegations might wish to group their requests.