

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

SPEC(82)21/Rev.1
11 June 1982

PROGRAMME OF CONSULTATIONS ON TRADE LIBERALIZATION

TEA AND INSTANT TEA

Informal record prepared by the secretariat

Revision¹

1. In the context of the overall Programme of Consultations on Trade Liberalization, the consultation on tea and instant tea was held on 3 March 1982, under the Chairmanship of H.E. Mr. F. Jaramillo (Colombia).
2. The consultation was carried out on the basis of secretariat document COM.TD/W/330, which contained background information on the commercial policy situation, trade flows, consumption and other relevant factors affecting trade in tea in its various forms.

General observations on trade in tea

3. Representatives of a number of tea exporting countries emphasized the significance of tea exports as an important source of foreign exchange earnings to tea producing countries and of income and employment to their peoples. They referred to the weak state of the international tea market. In this connexion, it was stated that according to recent U.N. statistics, the price of tea in real terms had declined by 25 per cent over the past ten years. If 1975 were taken as the base, the index of real earnings showed a sharp fall from 170 in 1970 to 96 in 1981. Higher prices were recorded in 1977, but it was a very short-lived phenomenon. Due to inflation, the cost of inputs had been increasing significantly and to maintain a viable tea industry was becoming extremely difficult for the tea producing countries. While production and supply of tea had been increasing, consumption in some of the traditional markets had been decreasing. In many developing countries, tea consumption had gone up steadily and was substantially higher than in many developed countries. These representatives proposed that importing countries maintaining tariffs or other commercial policy measures affecting tea should remove all such measures in line with the provisions of Part IV of the General Agreement.
4. The representative of the European Communities said that the problem of tea, as viewed within the Community, was one of general imbalance in the world supply situation on one hand and continuing depressed prices on the other. For the latter, efforts were being made by producers in another forum to devise mechanisms which might be helpful in organizing better the

¹ The revision takes into account comments and additional information provided by delegations after the consultations.

world market for tea. Work in this direction was due to be resumed in May 1982. Another important feature which had developed in recent years had been the agreement reached between producers and consumers with a view to promoting tea consumption. However, further efforts remained to be made at the international level in order, for example, to avoid a further slackening of tea consumption in certain countries and also to acquire secure markets for this beverage. In contrast to other major tropical products which were absorbed essentially by a number of developed countries, only 50 per cent of total exports of tea were shipped to developed countries. The major consumers within the Community were the United Kingdom and Ireland. The United Kingdom also accounted for a major share of world consumption. There had been a slow but steady decrease in the per capita consumption of tea in the United Kingdom which had occurred in spite of the absence of tariff or non-tariff barriers. This appeared to be due to certain non-economic factors which seemed to affect consumption trends in respect of certain products, such as consumer habits or competition from other beverages. He noted that the exporting countries were well aware of these factors which were key issues in respect of tea marketing and consumption.

Tariffs and quantitative restrictions

5. Some representatives of tea producing countries said that there were two types of tariff problems facing their exports. Firstly, Japan continued to apply customs duties to imports of black tea in bulk. Secondly, there was significant tariff escalation faced by tea in processed forms. In Japan, GSP duty rates were as high as 14 per cent for black tea in small packages, and 10 per cent for instant tea. New Zealand maintained an m.f.n. rate of 10 per cent on packed tea and a GSP rate of 15 per cent on instant tea. These representatives expressed the view that a reduction in tariffs and tariff escalation in accordance with the provisions of Part IV would facilitate the development of their tea exports.

6. In outlining the reasons for maintaining customs duties on tea, the representative of Japan explained that Japan was also a tea producing country. Tariffs on black tea were dependent on the situation of green tea in Japan, which was considered to be in competition with black tea. Green tea being a popular drink in Japan, it occupied a very important place in the regional agricultural economy. About 750,000 farmers were engaged in the cultivation of green tea. In recent years, while production of green tea had been maintained, consumption had stagnated. Consequently, the Government, regional authorities and farmers' organizations were making efforts to boost the consumption level with a view to maintaining a balance between supply and demand of green tea. In addition, the packing cost of green tea had been increasing and its competitiveness vis-a-vis imported packed tea had been deteriorating. He recalled that in the course of the MTNs, Japan had made substantial concessions for these products having regard to the importance of black tea production for certain developing countries. The GSP rate of 17 per cent was introduced, and had been reduced to 14 per cent in 1980; the base rate of 35 per cent had been lowered to 20 per cent (bound). In the circumstance, it was not easy for his Government to eliminate existing tariffs on black tea in one stroke.

7. Responding to a number of questions posed by the delegations of tea exporting countries, the representative of Japan said that the production of black tea in his country amounted to 5 tonnes in 1980 and that of green tea to 100,000 tonnes in the same year. As his Government was in the process of promoting consumption of green tea, it was doubtful whether it would be able to change existing commercial policy measures. With regard to the possibility of giving consideration to lowering further the GSP duty rates at the annual review of the GSP scheme, he added that he had no information on this matter.

8. Representatives of some tea exporting countries expressed doubt as to the stated competitive relationship between black tea and green tea which were in their view different products.

9. Reference was made by a number of tea producing countries to high tariffs, GSP rates and quantitative restrictions applied to tea in small packages and instant tea by New Zealand. They sought justification for the maintenance of these measures and requested elimination of the customs duties and non-tariff measures on these products.

10. The representative of New Zealand said that he had taken note of all the points and comments made with regard to the commercial policy measures followed by his Government relating to tea imports. He assured the delegations of tea producing countries that he would transmit these to the competent authorities for consideration.

11. Representatives of a number of tea exporting countries invited the representatives of Hungary and Czechoslovakia to provide information on commercial policy measures and any other factors relevant to imports and consumption of tea in their countries.

12. The representative of Hungary said that her country was not a traditional consumer of tea. The value of imports of tea amounted to approximately 80 million forints in 1981. Two-thirds of the total imports of tea came from India, Sri Lanka and Bangladesh. There were visible trends reflecting an increase in consumption of tea; the per capita consumption which stood at 72 grammes in 1970 had attained a level of 100 grammes in 1981. Tea was subject to the following customs duty rates: MFN - 40 per cent; GSP - 10 per cent; and LLDC - free.

13. The representative of Czechoslovakia said that a greater part of tea imports came from India, Sri Lanka and Bangladesh. Imports of tea had virtually doubled during the period 1975 - 1979. The GSP rate was zero; imports of tea were not subject to any non-tariff measure.

14. After the consultation the delegation of New Zealand provided the following information. "A number of policy changes have recently been made as a result of the recommendations of a study in the packing industry by the Industries Development Commission which has completed a number of studies with implications for structural adjustment in the New Zealand economy. The duty rate on tea in retail packs of less than 2 kg net weight has been reduced from 10 per cent ad valorem to a specific rate of 10 cents

per kilo. This tariff is currently being tested through the Import Licence Tendering Scheme. Under this Scheme, extra licenses for tea in retail packs are being made available over a period of two years (four rounds of tenders) to a total value of NZ\$ 3.3 million. At the end of the testing period, a decision will be made as to whether tea in retail packs can be exempted from import licensing."

Internal taxes

15. Representatives of a number of tea exporting countries expressed their concern about internal taxes maintained by certain tea importing countries, which, in their view, served as a deterrent to higher consumption. In this regard, reference was made to the selective internal taxes maintained by Denmark and the Federal Republic of Germany, the incidences of which were stated to amount to 40 per cent and over 100 per cent ad valorem equivalents respectively. Reference was also made to the value added tax applied by these countries on tea. These representatives expressed the view that the high incidence of taxes on tea and the resultant increase in retail prices discouraged further increases in tea consumption. They requested the elimination of selective taxes on tea applied by the two countries and a reduction in the rate of value added tax, for example, by applying the lowest VAT rate applicable in the importing country.

16. The representative of Denmark said that the selective internal taxes were maintained for revenue purposes. The internal taxes had not been increased since they were introduced in 1976. There was, in the view of his authorities, no link between internal taxes levied on tea and the level of tea consumption. To illustrate, Denmark imported 1,766 tonnes of tea in 1970. Since then, there had been a steady increase in imports which attained the level of 2,649 tonnes in 1980. Imports of tea amounted to 2,684 tonnes in 1976. With the introduction of internal taxes in the same year, the incidence of which on tea prices worked out to about 40 per cent, imports of tea rose to 3,079 tonnes in 1977. Per capita consumption also increased in 1977 over 1976 and decreased in 1978 when compared with 1977 figures. In the light of the foregoing, it would be difficult to determine that internal taxes had had an adverse effect on consumption and that there was a definite relationship between the two. This representative added that many factors affected tea consumption including competition from other beverages: for instance, while tea consumption in his country increased in 1977 over the 1976 level, the consumption of coffee declined. The internal taxes were, therefore, neither an obstacle to trade nor had they any effect on consumption. The single column value added tax was applicable to all types of goods in Denmark and the possibility of its being lowered or eliminated for tea was non-existent.

17. In response to a number of points raised by the representatives of tea exporting countries in relation to internal taxes, the representative of the Federal Republic of Germany said that his Government had strictly fulfilled its MTN commitments regarding internal taxes; internal taxes on tea had not been increased despite budgetary constraints and increases in taxes on other goods (spirits, tobacco, etc.). There had been great pressure for an increase in taxes on tea and coffee as well but the Government had succeeded in not raising the level of taxes on these

products. His Government believed that internal taxes did not have any adverse effect on tea consumption. To illustrate, his country was the second largest consumer of tea in the European Economic Community. Imports of tea between 1975 and 1980 had increased with a yearly growth rate of about 10 per cent; they amounted to 9,000 tonnes in 1970; 10,000 tonnes in 1975; and 16,000 tonnes in 1981. Per capita consumption had also progressed: it recorded a level of 120 grammes in 1960; 151 grammes in 1970; and 225 grammes in 1980. Although customs duties on tea were eliminated in 1964, there had been no significant increase in tea consumption. Many other factors affected tea consumption and trade flows including, for example, competition from other beverages, quality and changing national habits. With regard to the ad valorem incidence of internal taxes which had been estimated at more than 100 per cent, the incidence of these taxes on high-quality teas and tea packed for retail sale was lower than that indicated. His country was an importer of high-quality teas; while in 1979, imports by the Federal Republic of Germany amounted to 15,289 tonnes worth over 64 million, a review of statistical data showed that imports by one other country, for example, amounted to 15,440 tonnes with a total value of a little over 17 million. The value added tax, in the view of his authorities, was a marginal element in the price structure for tea and could hardly be considered as a factor inhibiting consumption. There were a number of institutions in the Federal Republic engaged in tea promotion activities; their activities would, no doubt have a further positive effect on tea consumption.

Possibilities for further progress in trade liberalization

18. Importing countries concerned were requested by certain exporting countries to study a number of specific suggestions regarding possible measures to further liberalize trade and to increase tea consumption. They were:

- Denmark: tea and instant tea - elimination of selective internal taxes.
- F.R. Germany: tea and instant tea - elimination of selective internal taxes.
- Japan: black tea in bulk - duty-free treatment under the GSP.

black tea in small packages - duty-free treatment under the GSP.

instant tea - duty-free treatment under the GSP.
- New Zealand: packed tea - duty-free treatment and elimination of quantitative restrictions.

instant tea - duty-free treatment.
- General: tea and instant tea - application of the lowest VAT rate or reduction of VAT rates.