

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## PROGRAMME OF CONSULTATIONS ON TRADE LIBERALIZATION

### SPICES AND ESSENTIAL OILS

#### Informal record prepared by the secretariat

#### Revision<sup>1</sup>

1. In the context of the Programme of Consultations on Trade Liberalization, the consultation on spices and essential oils was held on 4 March 1982, under the Chairmanship of Ambassador F. Jaramillo (Colombia).

#### Spices

2. The consultation was carried out having as background secretariat document COM.TD/W/334 and Add.1, which contained information on the commercial policy situation, trade flows, consumption and other factors affecting trade in spices in their various forms.

#### General observations on trade in spices

3. A number of representatives stated that exports of spices were very significant for the economies of their countries as an important source of foreign exchange earnings as well as for employment both in rural areas and in light industries. The representative of India indicated, for example, that the annual value of exports of spices by his country was approximately US\$160 million. It was noted that approximately 90 per cent of exports of spices took place in bulk form. These delegations acknowledged that over the years a number of tariffs applicable to spices had been reduced or eliminated in the framework of GATT, but certain forms of protection to domestic industries were still in effect in a number of developed importing countries. They stated that in some developed importing countries, tariff rates were higher for spices in powder, retail packages and other processed forms than for unprocessed spices. Even though spice production had been increasing steadily, tariff escalation had in their view impaired the further processing of these items in the producing countries; high retail prices also constituted a disincentive to increasing consumption. These delegations stated that consumption in certain importing countries was relatively low if compared to per capita consumption in the producing countries. It was also noted that mixed spices such as curry powder encountered tariffs and/or import restrictions in some markets.

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

4. Representatives of some importing countries stated that while this was a broad and complex sector in international trade, significant liberalization had taken place before and during the Tokyo Round. The value of world trade in spices was approximately US\$700 to US\$800 million. Most of this trade took place in bulk form. In their view, this was not due to a situation of tariff escalation but to technological problems, as the processing of spices needed to be undertaken as close as possible to the time of consumption or utilization. In addition, with respect to ground spices, there were some questions of quality control particularly if processing took place in remote areas.

5. The representative of the European Communities recalled that before the entry into force of the Treaty of Rome, the average duty applied to spices in general by EEC member countries was approximately 25 per cent, while the current duty average in the EEC for spices was only 4 per cent. With only a few exceptions, EEC GSP rates for unground and processed spices were the same.

6. The representative of Romania said that the Romanian Schedule of Concessions under the Protocol Relating to Trade Negotiations Among Developing Countries included a 60 per cent reduction on m.f.n. duties applicable to spices. Imports of these items from countries participating in the Protocol had increased from US\$2.2 million in 1978 to US\$2.6 million in 1980. The main suppliers were India, Brazil and Mexico.

#### Tariffs and Quantitative Restrictions

7. The representatives of India and Malaysia with respect to pepper, India with respect to curry powder and Sri Lanka with respect to cinnamon, referred to the application of duties including the problem of tariff escalation with respect to processed and semi-processed spices in Austria, the EEC, Japan and New Zealand. These representatives recalled the provisions of Part IV of the General Agreement and suggested the establishment of a programme for the dismantling of all tariffs still being applied to spices.

8. Reference was made by these delegations to what were, in their view, very high GSP rates applied to cinnamon, pepper, curry powder and other spices by Austria. While unground spices attracted relatively high levels of duty, for certain ground spices and spices in retail packages, duties doubled or trebled. The representative of Austria said that imports originating in the least-developed countries were duty-free in Austria. At this time, Austria did not intend to grant duty-free treatment to other developing countries. However, the possibility of further improvements to the Austrian GSP would be examined at a later date. In his opinion, traditional consumer habits would limit an increase in consumption of spices even if duties were totally eliminated. In the light of the interest expressed by exporting countries, the duty rates applicable to cinnamon in retail packages would be examined. The representative of one exporting country noted that the main exporters of cinnamon were developing countries other than the least-developed countries.

9. Representatives of some exporting countries noted that cinnamon, pepper and other spices were still subject to duties of up to 10 per cent under the GSP scheme of the European Communities. These exporting countries suggested that GSP rates of the European Communities applicable to spices should be reduced to zero. The representative of the European Communities stated that the GSP rate of the EEC for both unground and ground pepper which represented approximately 40 per cent of trade in spices was 4 per cent. GSP rates applied by the EEC did not support the suggestion that there was tariff escalation in the EEC. In the case of ground and unground capsicum pimento, the GSP rates were 5 per cent, for other pimento 4 per cent ground and 5 per cent unground, for ground and unground cinnamon 2 per cent, cardamoms duty-free, etc. For cloves the GSP rate was 10 per cent, but the suppliers of cloves to the EEC were ACP countries which had duty-free access. The EEC had taken note of the requests made to reduce the GSP rates applicable to various spices.

10. Some exporting countries recalled that Japan continued to maintain relatively high m.f.n. duty rates for practically all spices, with rates doubling in some cases for ground spices or spices in retail packages although duty-free treatment had been granted for most of these spices under the GSP. They believed that due to a different spice mix, imported curry powder could not be considered as competing with domestic Japanese curry powder. Curry powder imports which were not included in the GSP of Japan were subject to an m.f.n. duty rate of 15 per cent. As curry powder was a mixture of different ground spices, this situation in itself constituted a very significant degree of tariff escalation. The representative of Japan said that demand for curry powder in Japan was constant and imports of curry powder from India with certain annual fluctuations had been increasing. Furthermore, a certain degree of protection was still necessary as the Japanese industries were small and not very competitive. Before the Tokyo Round, the duty rate for curry powder was 30 per cent. In the Tokyo Round the m.f.n. duty for curry powder had been reduced to 12 per cent starting from 16 per cent, the provisional rate in force at that time. The current rate was 15 per cent, but as of 1 April 1982 the rate would be 13.5 per cent as a result of the advance implementation of a Tokyo Round concession two years ahead of the scheduled staging. At the end of the eight year staging period, the m.f.n. rate for curry powder would be 12 per cent.

11. Reference was made by some exporting countries to the m.f.n. and GSP rates applied by New Zealand to ground spices and to quantitative restrictions maintained on the import of both ground spices and spices in retail packages. In particular, the tariff treatment and import restrictions affecting ground cinnamon and cinnamon in retail packages did not appear to be justified.

12. After the consultation the delegation of New Zealand provided the following information. "Ground spices packed for retail sale and other than for retail sale all have a 10 per cent GSP margin of preference for developing countries. The general rate is 20 per cent, while the developing country rate is 10 per cent. Following the recommendations of a study conducted in New Zealand of the packing industry, extra licences for unground spices in retail packs are being made available under the Import Licence Tendering Scheme to a total value of NZ\$30,000. At the end of this period the licensing position will be revised."

Possibilities for further progress in trade liberalization

13. Representatives of some exporting countries said that in general terms, they would like to see the adoption of a comprehensive programme for the elimination or substantial reduction of all remaining m.f.n. and GSP customs duties on spices, a prompt removal of tariff escalation on ground spices and spices in retail packages, and the elimination of remaining quantitative restrictions applicable to spices.

14. Importing countries concerned were requested by certain exporting countries to study a number of specific suggestions for improved tariff treatment, and other forms of cooperation. These were as follows:

- Austria: elimination of tariff escalation and a reduction in GSP rates to zero for cinnamon, pepper, curry powder and other spices.
- EEC: GSP rates for cinnamon, pepper and other spices (unprocessed and processed) be reduced to zero.
- Japan: Duty-free entry under the GSP for curry powder.
- New Zealand: elimination of tariff escalation and quantitative restrictions applicable to all ground spices and spices in retail packages, including ground cinnamon.
- All countries: Technological assistance for the development and improvement of processing and quality control in developing countries. The promotion of consumption in selected markets so as to increase imports by them of ground spices and spices in retail packages.

Essential oils and resinoids

15. As a basis for the consultation, the secretariat had prepared document COM.TD/W/335 containing background information on the commercial policy situation, trade flows, consumption and other factors affecting trade in essential oils and resinoids.

16. With regard to essential oils, both importing and exporting countries noted that imports of tropical essential oils from developing countries into developed country markets had been granted duty-free treatment either on an m.f.n. basis or under the GSP as a result of rounds of negotiations in the framework of GATT. Certain essential oils were, however, still subject to m.f.n. rates in certain importing countries.

17. The representative of Peru said that imports of lemon grass oil had m.f.n. duty-free treatment in the United States. However, the m.f.n. duty applicable to lemon oil (position 3301 45234) was 8.5 per cent. Peru requested the inclusion of this item in the GSP of the United States at a duty-free rate. The representative of the United States took note of this request.