

GENERAL AGREEMENT ON TARIFFS AND TRADE

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PROGRAMME OF CONSULTATIONS ON TRADE LIBERALIZATION

OILSEEDS, VEGETABLE OILS AND OILCAKES

Informal record prepared by the secretariat

Revision¹

1. In the context of the Programme of Consultations on Trade Liberalization, the consultation on oilseeds, vegetable oils and oilcakes was held on 8 March 1982, under the acting Chairmanship of Mr. R. Tooker (secretariat).
2. The consultation was carried out having available secretariat documents COM.TD/W/337 and Add.1. These contained information on the commercial policy situation, trade flows, consumption and other factors affecting trade in oilseeds, vegetable oils and oilcakes, in particular those of tropical origin, including copra and coconut oil, palm kernels and palm kernel oil, and palm oil, as well as groundnuts and groundnut oil, castor beans and castor oil and certain miscellaneous oilseeds and oils.

General observations on trade in vegetable oilseeds and oils

3. A number of representatives indicated that their countries' economies and foreign exchange earnings were highly dependent on exports of copra, coconut oil, palm oil and palm kernel oil. The representative of the Philippines stated by way of example that in 1977 coconut products had been the source of approximately 20 per cent of total export earnings of his country. Representatives of some other exporting countries referred also to groundnuts, groundnut oilcakes, castor oil and its derivatives as being of considerable significance in their countries' exports. They said that plantation crops were a very important source of employment and income for a large section of their rural populations. In the Philippines, the livelihood of some 16 million people was determined by the situation of the category of products under examination. The representative of the Ivory Coast stated that palm plantations covered some 90,000 hectares in her country; in 1979 palm oil exports had reached 57,000 tons and palm kernel oil 20,000 tons although costs of production and processing had been increasing.

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

4. Representatives of some exporting developing countries stated that investment was being expanded to provide increased domestic processing facilities for beans and nuts; new refineries had commenced operation and production of crude and refined oils had been growing in a number of such countries. It was noted by certain of these representatives that even though between 1972-74 and 1979 per capita consumption of all fats and oils had increased by about 12 per cent, the share of tropical vegetable oils including coconut oil in gross world exports had been decreasing.

5. Some exporting developing countries indicated that their countries had also embarked on various research activities with a view to improving quality and diversifying the end-uses of these products. These representatives expressed concern at the wide fluctuations of vegetable oil prices in international markets which constituted one of the biggest problems in this sector. The representative of the Philippines indicated in this respect that the average world price of coconut oil in 1979 had been US\$998 per metric ton, in 1980 US\$675 and in September 1981 US\$515, or approximately 48 per cent below the 1979 level.

6. While acknowledging that certain tariffs applicable to vegetable oils and oilseeds had been reduced recently in the framework of the MTN and that some importing countries had certain relevant domestic interests in this area, representatives of some exporting developing countries stated that in their view the conditions permitting greater competition in this sector could still be improved. In some importing countries, a competitive product such as soyabean and soyabean oil had either duty-free or better conditions of access than tropical oilseeds and oils. These representatives stated that tariff averages for certain tropical vegetable oils were still relatively high and in some developed importing countries there continued to be a serious problem of tariff escalation affecting crude and refined oils and oils in small containers. Another general problem related to the import treatment of oils for human consumption. In addition to attracting higher rates of duty than those applicable to oils for industrial use, various items such as coconut oil, palm oil, castor oil and its derivatives for human consumption were subject, in some importing countries, to strict health and sanitary requirements. In this respect, particular reference was made by one of these representatives to the question of aflatoxin in relation to groundnut oilcake. He stated that under current technological conditions, exporting countries were able to satisfy requirements relating to this matter at the point of export, but were unable to ensure compliance at the point of entry of the importing country.

7. Representatives of some exporting countries members of the ACP-EEC Convention of Lome noted that duty-free access to the European Communities had facilitated the process of industrialization in their countries by making it possible to increase exports of vegetable oils, such as palm oil and palm kernel oil to the EEC. It was hoped that other developed importing countries would also consider the liberalization of tariffs and other barriers which continue to affect access for tropical vegetable oils.

8. Representatives of some importing countries noted that vegetable oils and oilseeds were a very important and rather complex sector of international trade. They also noted that in recent years there had been a

large increase in production and exports by developing countries and there continued to be potential for further increases in imports of these products by developed countries. Some of these representatives shared some of the concerns about price fluctuations expressed by the representatives of a number of exporting developing countries. Trends in foreign trade had indicated that exports of beans and nuts were being replaced by vegetable oil exports. The existing degree of tariff escalation, in their view, should not be considered as a significant obstacle to trade in vegetable oils.

9. The representative of the European Communities noted that world trade in vegetable oils had been increasing. In the EEC, which was the world's main importer of these products from both developed and developing countries, annual consumption had reached some 40 kilogrammes per capita. In the EEC, beans and nuts received duty-free treatment; the range of tariff duties for vegetable oils varied between 5 and 20 per cent and GSP duty rates between 2.5 and 18 per cent, the latter being applicable only to oils in small containers. This representative added that aflatoxin in groundnut oilcakes constituted a serious problem for animal health; to deal with this matter sanitary controls at the border of Community countries were being strictly applied.

10. The representative of the United States noted that his country had large domestic production of items which were closely related to or direct substitutes for tropical vegetable oils. Thus, the United States had an important export interest in this sector as a whole. Nevertheless, access to the United States market was relatively open; imports were also large and statistics indicated a trend towards higher imports. In the MTN, access for coconut oil and palm oil into the United States had been liberalized. More than one-half of the products in this category entered the United States duty-free or under the GSP, or would do so under zero m.f.n. rates when the MTN concessions were fully implemented. In the view of the representative of the United States, there was no problem of tariff escalation with respect to imports into his country.

11. Commenting on current trends in international trade in vegetable oilseeds and oils, the representative of the European Communities stated that a number of developing countries had been applying export restrictions or export taxes on the export of seeds and primary products, and using the revenue of such taxes to promote the export of processed products. In his view, these practices did not appear to conform with the spirit of the General Agreement. Such practices adversely affected the crushing industry in the EEC by limiting access to the raw material. As a result of the concerns expressed by the European Communities, some exporting countries had already modified their domestic policies in this respect. This was greatly appreciated and it was hoped that other countries applying similar measures would also modify them as soon as possible. Representatives of some exporting developing countries noted that, despite their limited resources, and notwithstanding continuing tariff escalation in a number of importing countries, they were seeking to promote exports of vegetable oils in their more processed forms through the implementation of policy incentives for oil production and the realignment of export duties. Export duties were not being used to subsidize exports but to encourage domestic industries to produce refined oils and processed products with value-added

content. Export taxes had also been applied occasionally to tax windfall profits. Other domestic considerations such as a desire to increase the consumption of vegetable oils also justified the application of export taxes. Moreover, some exporting countries had reduced export taxes recently without any counterpart action by developed importing countries, in particular the European Communities, in the field of tariff escalation and trade liberalization.

12. Reference was also made by some developing country representatives to quantitative restrictions being maintained by a number of importing countries.

Tariffs, quantitative restrictions and other charges

13. The representative of the Philippines referring to documents COM.TD/W/348/Rev.1 and COM.TD/W/337 and Add.1 noted that the post-MTN m.f.n. duty average for seeds in developed importing countries was 0.2 per cent. However, for copra and palm kernels, m.f.n. rates in Switzerland were 0.1 per cent ad valorem equivalent, 2 per cent in Australia applied as a temporary revenue duty and 19 per cent in Finland. The post-MTN m.f.n. duty average in developed countries for vegetable oils was 5.7 per cent. In Japan, the range of m.f.n. duties for crude and refined coconut oil and palm kernel oil was 8-9 per cent. For the same items, in the European Communities, the range of m.f.n. duties for crude was 5-10 per cent and for refined 8-15-20 per cent; in Finland 10-16 per cent plus quantitative restrictions; in Norway 7.8-7.9 per cent ad valorem equivalent; in Switzerland, for crude oil 0.7-7.9 per cent, and for refined oil 0.7-12.5 per cent, plus import charges or variable levies. Differential duties were also applied to crude and refined coconut oil for technical or industrial use and edible oils in the European Communities, Finland, Norway and Switzerland. An advance indication of suggestions for trade liberalization had been addressed by the Philippines to certain countries including Finland, Japan, Norway, Switzerland and the European Communities.

14. In response to a question by the representative of the Philippines concerning the reasons for applying to coconut oil higher duties than those applied to other vegetable oils, the representative of Japan said that the differences were very small; 1 per cent or 2 per cent. In Japan current m.f.n. duty rates were as follows: coconut oil 9.6 per cent, palm kernel oil 8 per cent and palm oil 7.6 per cent. Coconut oil had not been included in the GSP of Japan. Tariffs on vegetable oils were applied to protect domestic industries, and to ensure that the residues needed as feedstuffs by the dairy industry would be readily available. The Japanese Government had requested parliamentary authorization to advance by two years the MTN tariff staging for many products. If the Japanese Diet agreed, tariff rates for these items would be reduced substantially.

15. The representative of Sri Lanka stated that advance notifications suggesting a possible approach to the reduction of tariffs applied to coconut oil had been submitted to the European Communities and New Zealand. As regards the European Communities, GSP rates for coconut oil varied between 2.5 per cent and 18 per cent, the corresponding m.f.n. rates being 4 per cent and 20 per cent. The GSP margins were thus very small. Duty-free treatment under the GSP for coconut oil had been requested. In

New Zealand while other vegetable oils were granted m.f.n. or GSP duty-free treatment, coconut oil was subject to a 10 per cent GSP duty rate. Information was requested on the grounds for applying such a duty to coconut oil as well as the grounds for maintaining quantitative restrictions. This representative also recalled that Canada maintained a GSP duty rate of 12.5 per cent on refined coconut oil, GSP duty rates were lower for other refined oils.

16. The representative of India noted that castor oil was subject to the following duty rates: GSP 5 per cent in Canada, 9 per cent m.f.n. in Japan, GSP 6 per cent in the EEC. Also in the EEC, the m.f.n. duty rate for dehydrated castor oil was 12 per cent and this item was not included in the GSP. The GSP duty rate for hydrogenated castor oil was 16 per cent. It was hoped that the above-mentioned duties might be brought down. With regard to aflatoxin, this representative said that it might be desirable to pursue the question further with a view to developing some international standards. In response, the representative of the European Communities said that the EEC was prepared to continue bilateral discussion on the sanitary problems affecting groundnut oilcakes from India.

17. The representative of the Ivory Coast noted that in Finland the m.f.n. duty rate for copra was 19 per cent and that Finland also maintained quantitative restrictions; for crude palm oil, m.f.n. duty rates varied between 10-16 per cent and quantitative restrictions were also applied. In Canada and Austria, m.f.n. duty rates applicable to refined palm oil went as high as 17 per cent and 15.6 per cent respectively.

18. Referring to the question of tariff escalation, the representative of the European Communities noted the complexity of the fats and oils sector, in which most products were interchangeable. Relevant technological developments now permitted a great deal of interchangeability between different vegetable oils. The problem of price formation was related to the situation of dominant products such as soyabean oil, which had a share of approximately 33 per cent in world gross exports, while the share of all tropical vegetable oils was 27 per cent. This representative also stated that in the EEC, the escalation of Community tariffs was not considered to be a significant obstacle to international trade. The Communities had a relatively open market for vegetable oils, duties were in his view minimal, and there were no quantitative restrictions or other measures applied at the border. In this respect, the representative of the Philippines stated that for exporting countries such as his, existing m.f.n. and GSP rates for both crude and refined coconut oil were significant, especially those applicable to products destined for human consumption which were higher than the corresponding rates for coconut oil for technical or industrial uses.

19. In response to a question, the representative of Austria said that developed countries were the traditional suppliers of vegetable oils to his country. Brazil and the United States were the only non-European suppliers of castor oil and other vegetable oils. At this time, Austria could not reduce the duty rates applicable to palm oil and coconut oil refined and in small containers, but he expected that the situation would be reviewed at a later stage.

20. The representative of Switzerland stated that in Switzerland there was a liberal regime with duty-free treatment being granted to oils for industrial uses, while oils for human consumption were subject to duties and certain charges. Imported oils represented some 90 per cent of total consumption; commercial policy measures being applied were designed to ensure that there would be adequate demand for domestically produced animal fats in the form of butter and other products. Switzerland aimed at balancing market shares between animal fats and vegetable oils through the application of a tax which was reviewed every two or three years.

21. In response to a question, representatives of some importing countries stated that trade in vegetable oils was carried out by the private sector, thus it was not possible to direct importers to buy from certain suppliers.

22. After the consultation the delegation of New Zealand provided the following information. "Duty and licensing on coconut oil are maintained in line with New Zealand's obligations to the Cook Islands, Niue and Western Samoa, Pacific Island developing nations with which New Zealand has historically, economically and socially close connexions. (The SPARTECA Agreement, which has been notified to GATT, is an example of this assistance in the broader Pacific context). These countries tend to export relatively small quantities of a narrow range of products on which they are highly dependent for export earnings."

Possibilities for further progress in trade liberalization

23. Representatives of several exporting developing countries said that in general terms, they would like to see the elimination or substantial reduction of all remaining m.f.n. and GSP customs duties on tropical vegetable oils, a prompt removal of tariff escalation on crude and refined oils and oil in small containers, and the elimination of quantitative restrictions applicable to crude and refined tropical vegetable oils. Other charges or levies affecting tropical vegetable oils should also be eliminated. Representatives of some importing countries said that the requests of developing exporting countries would be examined without commitment. Certain of these representatives noted that the modification of policies relating to the application of export taxes by certain exporting developing countries might facilitate the future examination of their requests.

24. Importing countries concerned were requested by certain exporting developing countries to study a number of specific suggestions for improved tariff treatment, the elimination of quantitative restrictions and taxes, and other forms of cooperation. These requests were as follows:

- Austria: Elimination of tariff escalation with respect to all vegetable oils, in particular palm oil and coconut oil refined or in small containers, groundnut oil and castor oil

M.f.n. duty-free access for coconut oil, fit for human consumption (ex 15.07.02(a)).

M.f.n. duty-free access for olive oil.

- Canada:

Elimination of tariff escalation with respect to crude and refined vegetable oils, in particular crude palm oil and refined palm oil for industrial and human consumption, coconut oil refined or in small containers, castor oil and derivatives as well as groundnut oil.

Improvements in the GSP treatment of vegetable oils.

- EEC:

Elimination of tariff escalation with respect to all crude and refined vegetable oils, in particular coconut oil, palm oil, castor oil and derivatives, and groundnut oil.

M.f.n. duty-free access for palm oil refined for industrial use and for human consumption.

Improvements in the GSP treatment for castor oil and hydrogenated castor oil and inclusion of dehydrated castor oil in the GSP

Development of international standards for dealing with the question of aflatoxin.

Duty-free treatment under the GSP for coconut oil, crude, refined and in small containers for industrial and edible uses.

Coconut oil, crude (ex 15.07 DI(a)3).

- For technical or industrial uses other than the manufacture of foodstuffs for human consumption: reduction of m.f.n. duty (5 per cent) to zero.
- For the manufacture of foodstuffs for human consumption: reduction of m.f.n. duty (10 per cent) to 2.5 per cent per cent.

Coconut oil, refined (ex 15.07 DI(b)2).

- For technical or industrial uses other than the manufacture of foodstuffs for human consumption: reduction of m.f.n. duty (8 per cent) to zero.
- For the manufacture of foodstuffs for human consumption: reduction of m.f.n. duty (15 per cent) to 6.5 per cent.

- Finland:

Reduction of m.f.n. duties applicable to tropical vegetable oils, and removal of quantitative restrictions, in particular with respect to coconut oil, palm oil and castor oil.

Coconut oil unfit for human consumption, for use in soap, leather, lubricating oils and sulphonated oil, industrial (1507 C1b): removal of quantitative restrictions, reduction of m.f.n. duty to zero.
- Japan:

Elimination of tariff escalation with respect to crude and refined tropical vegetable oils, in particular coconut oil, and palm oil for industrial use and human consumption.

Reduction of m.f.n. duties for castor oil.

Coconut oil, fluid or solid, crude, refined or purified (1507-7): reduction of m.f.n. duty to zero or 5 per cent.
- New Zealand:

Duty-free treatment under the GSP for coconut oil and elimination of quantitative restrictions.

Reduction of the m.f.n. rate for coconut oil (15.07.41) to 10 per cent, removal of quantitative restrictions and internal taxes.
- Norway:

M.f.n. duty-free access for coconut oil, crude or refined (ex 1507.600).
- Switzerland:

Elimination of tariff escalation with respect to tropical vegetable oils. GSP duty-free treatment for coconut oil and palm oil.

M.f.n. duty-free treatment for coconut oil, crude for human consumption.

Elimination of taxes applied to tropical vegetable oils.

M.f.n. duty-free access for olive oil and elimination of automatic licensing.

Coconut oil, crude for human consumption (1507.10): reduction of m.f.n. rate (SwF 10/100 kg.) to zero.