Note on Cocoa Submitted by the United Kingdom Delegation

1. The Common Market tariff within the metropolitan countries of the Six is 9 per cent ad valorem on all cocoa except that produced in the French and Belgian overseas territories which is to be admitted duty free into the whole area of the Six by the end of the transition period. The total present size of the market of the Six in cocoa beans is 250,000 tons (1956 import figures) and the cocoa exports of the associated overseas territories are 135,000 tons (1956 export figures). Producers in the associated overseas territories will, therefore, obtain from importers of the Six world price plus a 9 per cent preference in respect of their total sales.

2. The present proposals of the Six will thus create an effective preference of 9 per cent for cocoa producers in the associated overseas territories for as much cocoa as they can produce up to a total of 250,000 tons by the end of the transition period.

3. The assurance of a market for the whole of their present production at 9 per cent better than world prices will inevitably stimulate artificially cocoa production in the overseas territories of the Six. They will know that, whatever may happen to world prices, they can count upon a preferential market for at least another 115,000 tons of their production. This knowledge must already be spreading rapidly to all cocoa farmers in the associated overseas territories and be encouraging them to increase their planting immediately in order to be in a position to take full advantage of the new preferential market as soon as it becomes fully effective. It is common experience that the assurance of a market for additional production is the most powerful stimulant of all towards increased production. Even more, however, the enlarged market will have its influence on the agricultural and administrative officers in these territories whose job it is to guide and stimulate production, encourage disease control, organize the opening up of new areas of production and advise on the choice of crops. Under their influence the expansion in production can be very rapid indeed.

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1 The figures used in this paper are based on those contained in GATT paper L/709, FAO's "Cocoa Statistics" and a Commonwealth Economic Committee publication entitled "Plantation Crops". Certain minor revisions may be necessary in the light of any more up-to-date statistics produced by the GATT Secretariat.
4. There is great scope for increased production in these territories. Cocoa production has been late in coming to French African territories as compared with Ghana and Nigeria. Production in the French Cameroons is now double what it was before the war, whereas total world production is only between 10 per cent and 20 per cent above prewar levels. Moreover, the average of 1953/55, the most recent three years for which production figures are available for the Cameroons, (57,000 metric tons), is some 20 per cent higher than the average for 1949 to 1951 (48,000 tons). There are large reserves of good cocoa land available and the potentialities for further increase in this territory are borne out by the following statement in the OEEC publication "Cocoa":

"The agricultural authorities hope to attain a production of 75,000 to 80,000 tons in 1960."

A similar percentage increase is shown in the figures for the postwar years in French West Africa. As this trend continues these territories alone should increase production by at least 50 per cent in the next ten years, i.e. 60,000 tons and possibly much more. The Belgian Congo, though a much smaller producer, has also shown notable increases in recent years. It is clear, therefore, that if these overseas territories make plans now further to accelerate production in response to the new preferences they can achieve an increase in production by the end of the transition period which will fill most, if not all, of the present market within the Six. Production, moreover, will not stop at that point but will go on growing under the stimulation of the 9 per cent preference.

5. Producers outside the Six are, therefore, faced with the prospect of a large additional production, in excess of present expectations, of cocoa coming on to the market during the next ten or fifteen years. The recent past has shown that the cocoa market is highly unstable so that a small imbalance between supply and demand can cause prices to fall very sharply, leading to very grave losses for all producers. Outside producers, moreover, will be gradually forced out of the market of the European Economic Community - a market of considerable importance to most of them. They are therefore, threatened with the complete loss of an important traditional market. That trade is, moreover, of particular importance to outside producers because in recent years they have been looking particularly to the markets in the Six as an outlet for their own increased production. United States and United Kingdom markets have appeared to be reaching saturation for cocoa and there are little signs at present of other countries becoming major importers. One of the first effects of the new 9 per cent duty will be to reduce cocoa consumption in France, the Benelux and Italy because there will be a substantial increase in duty collection in these territories of about £2 million per annum and a consequent increase in prices to consumers. The heavy consumption taxes on cocoa products in the Six (taxes which have recently been substantially increased in France) will have the same effect, where they are calculated on an ad valorem basis. In time, it may be that increased wealth will overcome the adverse effect of the high duty so that
consumption may again rise within the Six, but the first effect of this will be further to stimulate production by the Six's overseas territories, and it is clear from the figures given above that it should not be beyond their capacity to take up eventually the whole of even a substantially increased market. The outside world will, at best, now only enjoy what small part of the market remains after the overseas territories of the Six have supplied all they can.

Moreover if there is again a grave slump for cocoa as there was last year it will be outside producers who will suffer most since, unlike the producers in the overseas territories of the Six, they will have no guarantee of a market for their production. If consumption falls to the point where some cocoa becomes unsaleable that excess will be largely if not wholly on the hands of outside producers. Though producers within the associated overseas territories will have to take a lower price, they will always be confident that their market within the Six is secure.

6. There is a further serious threat outside producers have to face in that "Cocoa" is included in Annex II to the Treaty of Rome which would make it possible for the Six to introduce "managed market" techniques. It is quite conceivable at a time of depressed cocoa prices that the overseas territories of the Six would press for special arrangements to safeguard them even more fully in the markets of the Six by actions which would deny access to that market to other producers. This would artificially keep up prices and production in the Six's overseas territories and make sure that the whole effect of any decline in world demand would fall on other producers who might have to cut back production severely.

The importance of cocoa to outside producers

7. Cocoa exports are very important in the economy of a number of under-developed countries of the world. Taking examples from the Commonwealth, in 1954 they represented 75 per cent by value of Ghana's exports, 27 per cent of Nigeria's, 60 per cent of Grenada's and 43 per cent of Western Samoa's. For many of these and other territories, moreover, the Six constitute at present a very important cocoa market. Ghana sells 32 per cent of its exports to the Six, Nigeria 12 per cent and Grenada 27 per cent (1955 figures). These territories are, therefore, greatly dependent upon their cocoa earnings to maintain present living standards and, still more, to provide the funds for further development.

8. They are now threatened with the complete loss of their present markets in the Six amounting for all non-Six producers to about 140,000 tons, now worth some £40 million per annum. Moreover, there is the further threat that reduced consumption in the Six, due to higher prices, and increased production in the Six's overseas territories will cause such an imbalance between supply and demand that price levels in this very sensitive commodity will be seriously affected. The net result might well be to reduce present prices of around £300 per ton down to £200 per ton - a total loss for non-Six producers of about £70 million per annum. The threat of the loss of such an important market and of such a heavy fall in total earnings from cocoa is of the gravest concern to all non-Six producers.