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## WORKING PARTY ON THE ASSOCIATION OF OVERSEAS TERRITORIES WITH THE EUROPEAN ECONOMIC COMMUNITY

### Note on Coffee by the United Kingdom Delegation

1. The total demand for coffee within the Six in 1956 was some 520,000 tons and exports of the Six's Overseas Territories were in the same year some 270,000 tons. Since the Common Tariff at the end of the transition period will be 16 per cent and since the overseas territories' production is to be admitted duty free into the whole area of the Six and their overseas territories (as against the present arrangements for the admission of French overseas territories production duty free into France and Belgian overseas territories production duty free into Benelux), an effective new preferential system for that coffee is being created.

#### Robusta Coffee

2. Since the Six's Overseas Territories largely produce robusta coffee and since that coffee cannot be directly and immediately substituted for arabica coffee (it has a stronger and different flavour), it is necessary to distinguish the effects of the new provisions on robusta separately from arabica coffee.

3. The general level of coffee import prices, duty paid, within the Six at the end of the transition period will become world price plus 16 per cent. This is believed to be approximately the price level in France today so that no change in demand should arise there. A substantial reduction in demand as a result of the Common Tariff is inevitable in Benelux since it will cause an increase in the price level of 16 per cent. There will be similarly a small reduction in demand in Italy. Since Germany at present consumes very little robusta coffee it will require changes in coffee buying habits to encourage the consumption of robusta coffee there, despite the reduction in duty. The net effect of these duty changes in themselves, therefore (ignoring changes in taste and the effect of rising living standards) is likely to be to reduce consumption of robusta coffee in the Six and this will reduce world prices (and prices of that type of coffee are already relatively weak) which could have serious effects for non-Six producers of robusta coffee. There may also be some repercussion on prices of lower grades of Brazilian coffee.

4. The total present demand for robusta coffee in the Six appears to be about 230,000 tons and robusta exports from the Six's Overseas Territories now total about 235,000 tons. These producers have at present a substantial market in the dollar area, of some 40,000 tons and it seems likely that so far as possible this will be retained; there are also small exports to other areas. At present, therefore, there appears a gap of 50,000 to 55,000 tons between the total Six's requirements and the exports to them from the Six's Overseas Territories. This will give the Six's Overseas Territories robusta producers scope for increased exports to the Six and will ensure that the preference is effective in giving producers the world price plus 16 per cent.

5. Moreover, although there will be an initial fall in demand (paragraph 3 above), in time consumption will no doubt begin to grow again in the Six. Robusta coffee is largely used in soluble coffee for which the market in the Six is as yet untapped (e.g. German consumption is only 2 to 4 per cent of its total coffee consumption as against 20 per cent in the United States). Moreover, the better robusta coffees are being increasingly used in coffee mixtures with the arabica coffees. Rising living standards should also have some effect on consumption. All these factors hold out hopes of increases in demand within the Six. The whole of this increased market will be open on the new preferential terms to the Six's Overseas Territories.

6. The receipt of a better price and, even more, the knowledge that a market exists within the preferential area for an increased production of the order of 50,000 tons initially and much more in time, will undoubtedly encourage further production of robusta coffee in the Six's Overseas Territories. This knowledge will no doubt seep down to the individual coffee farmer and encourage him to increase his planting, but even more it will have its influence on the agricultural and administrative officers in these territories whose job it is to guide and stimulate production, disease control, the opening up of new areas of production, and the choice of crops.

7. There is considerable scope for increasing production of robusta coffee in the Six's Overseas Territories. It is a crop which grows readily under most African conditions and production has already been increasing rapidly. French West Africa's total exports (almost wholly robusta) has grown from 14,000 tons prewar to 95,000 tons in 1954 and 131,000 tons in 1956. This is the largest rate of increase of production of any territory in the world, no doubt due to the exceptionally high prices farmers in that territory have received. This rate of increase is likely to continue under the stimulus of a continuation of these prices (or at least of prices 16 per cent above what other producers will receive) and of the new increase in their preferential market well above the already saturated French market. The rate of increase in production in the Belgian Congo has so far been slower but between 1953 and 1956 total exports of Belgian Overseas Territories increased by 50 per cent to 51,000 tons (including arabica). Under the stimulus of a 16 per cent increase in their price Belgian Congo farmers are likely to put much greater efforts into increasing production of all varieties of coffee.

8. The effects of these changes on non-Six robusta coffee producers will be to threaten them with lower prices by reducing overall demand initially and excessively stimulating supplies; even more seriously they will threaten them with the loss in the near future of the whole of their present established market in the Six of some 50/55,000 tons per annum. Present world robusta exports are some 450,000 tons. The Six's Overseas Territories contribute some 235,000 tons of this so that the remaining world supplies are 215,000 tons. In effect, therefore, outside producers are threatened with the loss of one-quarter of their total present world market. They will, moreover, have no certain prospect of sharing in any increases in the markets of the Six - yet it was these markets especially that they were looking towards as potentially the most hopeful areas for sales of their own increasing production.

9. Robusta coffee production is very important to some under-developed countries outside the Six's Overseas Territories - many of them in Africa. It forms 89 per cent of Uganda's coffee production by weight and coffee is about 47 per cent of the territory's total exports by value. Its trade with the Six in robusta coffee has averaged about £2 million per annum in recent years. Coffee is the most important single source of wealth to the farmers of this Colony and the plans for greater prosperity in this politically and economically vital territory of Africa have been largely built upon growing more coffee. For Tanganyika the similar figures are 36 per cent and 19.5 per cent; 49 per cent of Trinidad's exports and 43 per cent of Sierra Leone's also go to the Six. Her Majesty's Government are most gravely concerned at the effects of these changes on the prosperity of coffee producers in all these territories and the consequential political repercussions.

#### Arabica Coffee

10. The position of arabica coffee in the Common Market is somewhat different. Germany is the largest arabica coffee consumer in the Six and there will be some reduction in duty which, even allowing for the heavy consumption taxes on coffee there, should lead to some reduction in the price to consumers (though the prices will still be very high) and thus to some increase in consumption. For Italy on the other hand there will be an appreciable increase in the duty on arabica, (at least 6 per cent) and, similarly, the increase for Benelux will be 16 per cent, thus reducing consumption. The net effect throughout the Six is, therefore, likely to be only a small increase in the general level of consumption, if any at all.

11. The demand for arabica in 1956 in the Six was some 300,000 tons and production in the Six's Overseas Territories was some 35,000 tons. There is no doubt, therefore, that the new arrangements will create a new and very large preferential market for the arabica coffee production of the Six's Overseas Territories at 16 per cent above world prices. Most arabica coffee prices are already much higher than robusta and with a further 16 per cent on top of those prices production of arabica in these territories will be greatly stimulated.

12. Arabica production is already growing rapidly in the Belgian Congo and the French Cameroons. Though arabica is much more difficult to grow in Africa than robusta coffee, there are suitable soils and climatic

conditions in certain parts which could grow greatly increased quantities of this coffee. Higher prices and even more the certainty of a preferential market for nearly ten times their present production will stimulate the search for suitable new coffee growing areas and for techniques of disease control, etc. which would enable arabica coffee bearing land to grow larger crops.

13. This must, therefore, constitute a long term threat to those countries which sell arabica coffee to the Six. They are faced with the prospect of a gradually shrinking market as the Six's Overseas Territories' production increases. Moreover, there is the threat the robusta coffee will gradually oust arabica coffee from the markets of the Six (see paragraph 4 above). The change in duty from specific to ad valorem will tend to encourage this switch since it will make the lower priced robustas relatively much more attractive than they have so far been in Germany and Italy. The apparently large market for arabica coffee still open to outside producers may, therefore, be gradually curtailed.

14. Arabica coffee production is very important to many countries and the Six at present constitute an important market, representing 15 per cent of the world market for this type of coffee, and a much higher percentage of their market for some producers. In British territories arabica coffee is particularly important to Kenya since it is averaging over 50 per cent of total exports of this territory and sells as to 56 per cent to the Six. Kenya is planning substantial increases in coffee production by native farmers as part of the Swynnerton Plan to further the economic development of the African farming community. A failure to obtain good markets for this coffee would have the most serious political effects there. Arabica coffee is also important to Tanganyika (15 per cent of total exports and 30 per cent to the Six). Jamaica sells nearly 50 per cent of its arabica to the Six.

15. This paper has ignored the effects of the duty free quotas provided for in the Treaty of Rome since these are only applicable for the transition period (and four years after in the case of Italy). In any case without more information on the method of allocation of the duty-free quotas it is impossible to assess their economic effects.