

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

COM.TD/C/2
16 December 1965

Limited Distribution

Committee on Trade and Development

Working Group on International Commodity Problems

SECRETARIAT NOTE ON THE FIRST MEETING OF THE GROUP, HELD FROM 24-26 NOVEMBER 1965

1. The Group held its first meeting from 24 to 26 November, to discuss its programme of work and developments in international trade in cocoa, cotton and tropical timber in respect of which notes and certain proposals for action had been placed before the Group by experts from a number of African countries. The Group also had before it a note drawn up by the secretariat (COM.TD/C/W/4), intended to provide further data in relation to these commodities.
2. The major points made in the discussion in relation to these three commodities, as well as the points of a more general nature relating to the work programme and procedures, are summarized below under the respective headings.

COCOA

3. The Group had before it document COM.TD/C/W/1, the note drawn up by experts from a number of African countries, dated 14 October 1965; the secretariat note, as well as two UNCTAD documents (TD/COCOA 1/WP.1/R.18, and TAD/63) - the report and a press release respectively - on the meeting of Working Party 1 (Prices and Quotas) of the United Nations Cocoa Conference, held in Geneva from 18-22 October 1965. The Group noted that its terms of reference provided that, in dealing with the problems before it, it should take full account of the work carried out in other organizations.
4. At the outset of discussions, the Group took note of a statement by the observer from UNCTAD - made at the request of the Group - regarding work recently undertaken, or in progress, in connexion with the meetings of the United Nations Cocoa Conference. In his statement the representative of UNCTAD outlined briefly the scope of the work undertaken by his organization in the commodity sector. As regards cocoa, he drew the attention of the Group to the sections of the report of the recent meeting of Working Party 1, relating to short and long-term measures for overcoming problems in the international cocoa market (pages 4 and 7 respectively of document TD/COCOA WP.1/R.18). He also informed the Group that the next meeting of the Working Party would be held from 10-21 January in New York, to discuss the bases for a new international cocoa agreement, and also to consider the resumption of a negotiating conference for a long-term agreement on cocoa. The Group expressed appreciation of the statement.

5. Bearing in mind that Working Party 1 of the United Nations Cocoa Conference would meet shortly, the Group did not enter into a detailed discussion of those aspects of the problem expected to be taken up by the UNCTAD Working Party, but concentrated its discussion on the question of the removal or reduction of customs duties, internal fiscal charges and other barriers affecting international trade in cocoa and cocoa products, a matter which is under consideration in the GATT.
6. A number of representatives emphasized the importance they attached to the urgent removal of trade barriers and particularly of high fiscal charges and restraints on consumption, stressing the effect that these have in limiting consumption, and thus on trade. Other members of the Group pointed out that the effect of such charges on consumption would depend largely on the general system of taxation applied by the importing country, or countries, a matter which would have to be taken into account in any consideration of this matter.
7. Taking account of the specific concerns and responsibilities which the CONTRACTING PARTIES have in relation to the removal of barriers to trade, both in the context of the Kennedy Round, and by virtue of the provisions of the General Agreement, the Group considered that, notwithstanding the forthcoming discussions on cocoa in UNCTAD, the CONTRACTING PARTIES should consider how, as a matter of urgency, they can discharge their responsibilities in this field. It was pointed out by some delegations that action on these barriers should not wait until the Kennedy Round negotiations, or negotiations for a long-term cocoa agreement, were completed.
8. Several delegations referred to the responsibilities entrusted to the Special Group on Trade in Tropical Products in the framework of the Kennedy Round negotiations. In this connexion it was recalled that the Special Group on Trade in Tropical Products had been charged with the responsibility of working for the creation of acceptable conditions of access for tropical products in the course of the Kennedy Round, and that it had been agreed that the Group should review the situation in respect of offers on tariffs and other barriers on tropical products, in the course of which developed countries participating in the Kennedy Round negotiations would furnish explanations on the contents and scope of their offers.
9. The Group agreed that the attention of the Special Group should be invited to the need for urgent review of the situation in respect of fiscal barriers affecting trade in cocoa with a view to exploring possibilities for speedy progress in this field. The Group further agreed that the concerns voiced at the present meeting should be brought to the attention of the Special Group and recommended that a meeting of the Special Group be convened at an early date.

COTTON

10. In opening the discussion, the representative of Chad introduced document COM.TD/C/W/2, the note submitted by experts from African countries. He highlighted the importance which cotton had for the economies of many less-developed countries and their dependence on this commodity as a source of foreign exchange earnings. As regards Chad, exports of cotton accounted for 80 per cent of its total export earnings. While his country was trying to diversify production and exports, it had to be remembered that these efforts depended to a large extent on Chad's ability to increase its income from its major export commodity - cotton. This required, however, that Chad, as well as other cotton producers, would obtain for their cotton remunerative prices on world markets. Taking account of difficulties experienced by countries like Chad - notably unfavourable conditions of production, remoteness from ports, etc. - the cotton prices prevailing in export markets did not provide enough of a margin to finance the necessary improvements to the cotton industry, not to mention the development or diversification of export industries generally.

11. Referring to the deterioration of cotton prices on world markets in recent years, the representative of Chad expressed concern about the possible impact of the provisions on cotton contained in the new farm legislation recently adopted by the United States. He stated that in the view of the experts from African countries, a solution to the problem affecting trade in cotton requires the drawing up of a broad international agreement, along the lines set out on pages 11 and 12 of document COM.TD/C/W/2, envisaging the organization of the cotton market, harmonization of production of natural and synthetic fibres, the settling of problems arising from the accumulation of stocks, and measures for promoting the consumption of cotton.

12. Commenting on recent changes in United States farm legislation, the representative of the United States indicated that this legislation covered a four-year period (1966-70), but that a solution to this problem would take a longer period of time. He noted that the United States was the only country attempting to restrict production. Despite the United States efforts to restrict production with the previous higher price support levels, the stocks of cotton owned by the Commodity Credit Corporation had continued to increase. He indicated that the most important objective of the new legislation was intended to improve the competitive position of cotton vis-à-vis man-made fibres. He explained that analyses carried out by the United States had shown that competition between these fibres was by far the greatest problem facing the cotton industry, not only in the United States but also in other countries. Another important objective of the new farm legislation was to bring about a gradual decrease of stocks owned by the CCC, and at the same time, to increase the rôle of private trade and to minimize that of the Government. He explained that the United States had been reducing its price support

of cotton over a number of years. Support prices in 1965 amounted to 29 cents per lb. for "one-inch middling", which serves as a standard in relation to market prices for other qualities of cotton. Under the new legislation, price supports to producers for cotton would be 21 cents per lb. for one-inch middling in 1966-67 and 90 per cent of the world market price thereafter. He explained that, in order to qualify for such support, farmers who produce more than ten acres or 3,600 lbs. of cotton would have to reduce the acreage under cotton cultivation by at least $12\frac{1}{2}$ per cent from the base level. Further incentives were being given for additional reductions in the acreage devoted to cotton cultivation. Cotton stocks acquired by the Commodity Credit Corporation under this new legislation will not be offered for resale at less than 110 per cent of the loan rate, in other words, in 1966-67 one-inch middling - under price support loan at 21 cents per lb. - was to be offered for sale at not less than 23.1 cents per lb. He recalled that under the previous system, which provided for sales by the Commodity Credit Corporation at 105 per cent of the loan rate (amounting to 29 cents per lb. in 1965) a subsidy of $5\frac{3}{4}$ cents per lb. was given for sales to domestic mills or for export. Taking account of the subsidy payment, it might be expected that the new legislation would result, in 1966-67, in offering for resale the one-inch middling acquired under price supports at not less than 23.2 to 23.3 cents per lb., about the same as that in 1965.

He explained that the new legislation did not give the Secretary of Agriculture any authority in regard to export pricing of cotton that he has not had for many years. The new legislation is a continuation of the United States policy in effect for several years of reducing the price supports and is intended to reduce United States stocks. In past United States consultations on residual import restrictions, other cotton-producing countries have indicated that the large stocks built up under the previous higher price supports had an important influence on world prices and United States retention of import quotas. He assured the Group that the United States' objectives in regard to prices for cotton are the same as those of other cotton-producing countries; namely, that prices be at the maximum level commensurate with an adequate volume of sales.

13. Without going into detail regarding the information set out in document COM.TD/C/W/2, which was before the Group, one representative pointed out that certain aspects such as information on the actions of other countries on prices, efficiency of some of the countries listed as reflected in yields and productivity, the direction of trade by certain governments, re-exports of cotton by State-trading countries, which have an influence on prices and world trade in cotton, were not covered. Other aspects which would require fuller coverage or analyses were the influence of substitution of man-made fibres for cotton and the influence of the level of imports of cotton by certain areas - particularly Europe - on the exports of certain countries.

14. Referring to the problems arising for cotton exporting countries from substitution of cotton by man-made fibres, one delegation drew the attention of the Group to the work relating to substitution problems currently in progress in UNCTAD, and suggested that the Group should keep in close contact with that work.

15. Commenting on the points made in document COM.TD/C/W/2 regarding the need or possibility of an international cotton agreement, several members of the Group pointed out that this matter was also under consideration in the International Cotton Advisory Committee (ICAC). They felt that it might be desirable to continue discussions relative to this aspect in that body. The Group agreed that it would be desirable to bring the points made during the present discussion to the attention of the ICAC. It was also pointed out that some less-developed countries exporting raw cotton were not represented in the ICAC, and that more information in regard to the discussions in ICAC and the activities of that body, as well as of other international organizations, would be helpful. The Group agreed that it would be useful to have a summary of the work of other international bodies relating to the work and discussions pertaining to the problems experienced in international trade in cotton. The secretariat was requested to prepare a paper summarizing such information, as well as other additional information on the international trade in cotton so that the Working Group might consider what specific aspects of the problems put before it in COM.TD/C/W/2 might be considered further.

TROPICAL TIMBER

16. The Group had before it document COM.TD/C/W/3, the note prepared by experts from African countries, together with the secretariat note referred to earlier. The Group took note of the information contained in these notes but felt that for a thorough examination of any problems which might exist in this sector additional data would be required.

17. Commenting on the conclusions contained in the notes submitted by experts from African countries, one delegation pointed out that it would be important to focus attention not only on the short-term situation but to examine also the longer-term prospects and problems in the timber trade. In addition to problems on the production side, mentioned also in the note prepared by the experts, certain other problems relating to transport costs and to disparities in prices offered to supplying countries, etc. might also need examination.

18. Attention was drawn to the differentials in tariff rates applicable to wood at various stages of processing. Reference was made in this connexion to the duty suspension accorded by some countries on a temporary basis for tropical timber, following the adoption of the 1963 Ministerial Conclusions. The hope was expressed

by some delegations that, pending consolidation in the Kennedy Round, the duty suspensions would continue in force. In reply to a question, the representative of the Commission of the European Economic Community stated that the extension of the duty suspension, originally scheduled for a two-year period, ending 31 December 1965, was presently under study in the Community. He stated that he saw no reason to believe that the policy hitherto followed in respect of tropical timber would be modified.

19. The secretariat was requested to provide the Group, in collaboration with governments and international agencies concerned, with further and more comprehensive data relating to international trade in tropical timber, so as to enable the Group to identify the specific trading problems with which it should deal, having regard to the work already being carried out elsewhere, for instance by the FAO.

GENERAL

20. It was suggested that it might be useful to organize the Group's programme of work so as to allow it to deal with the problems under three broad headings, namely (a) international trade in agricultural commodities - including tropical products (b) international trade in mineral products and (c) questions relating to substitution. The Group noted that while this might represent one way of grouping commodity problems in regard to international trade, it might be practical for the Group to consider the problems and specific problem in respect of each commodity as these are presented for consideration.

21. Referring to the terms of reference of the Group which state that the Group should base its work on specific proposals, one delegation pointed out that, if the Group is tied in every case only to the discussion of specific proposals submitted to it, it might not be able to carry out a complete examination of the problem affecting commodities, and the secretariat might not find it possible to deal with all relevant aspects of the situation affecting particular commodities which might need to be taken into consideration. It was pointed out that the Group had been given its present terms of reference by the Committee on Trade and Development, and interested delegations wishing to amend the Group's terms of reference could raise this point in the Committee.

22. It was also suggested in the course of the discussion that meetings of producer countries might be helpful in connexion with such matters as standardization, harmonization or control of production and exports, and other appropriate measures for improving marketing prospects for various products. It was pointed out that discussions in such meetings might facilitate more comprehensive discussions on commodity problems.