

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/996

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ROME TREATY

JOINT CONSULTATIONS UNDER ARTICLE XXII

Consultation with the Member States of the European Economic Community on Tea

Agreed minute submitted by the participating contracting parties

1. The consultations on tea under Article XXII of the General Agreement with the Member States of the European Economic Community which were held at the request of the Government of India and which opened in Geneva on 31 October 1958 were resumed in Geneva on 16, 18 and 19 February 1959. This minute relates to the February consultations only.
2. In addition to the Member States of the EEC the following other contracting parties participated in the consultations: India, Ceylon, Indonesia, Japan, Pakistan and the United Kingdom. The Chair was taken alternately by a representative of participating countries other than the Six and by a representative of the Six.
3. The discussions were carried out in the light of data and discussion to be found in the Working Party's Report on tea (Addendum 3 to L/805), the statistics furnished by the GATT secretariat (attached herewith as Annex I), the discussions which had taken place in the previous consultation under Article XXII and various memoranda (i.e., the memorandum submitted by the Governments of Ceylon, India, Indonesia and Pakistan (attached herewith as Annex II) and the reply of the Six which is attached to this document as Annex III.
4. In order not to burden the minutes and since the views expressed individually by the representatives of each third country were generally shared by the others, these views are recorded as the views of "representatives of participating countries other than the Six".

COMMON EXTERNAL TARIFF

(a) Implementation of the Common Tariff

5. The representatives of the Six in reply to questions about the present level of duties on tea in the Member-Countries indicated the measures taken by the Six in the tariff field since the October consultations, and recalled the decision of 3 December 1958 by the Members of the Community to reduce tariffs by 10 per cent, reported in document L/954. The present tariff position on tea in the Member Countries was:

- (i) Federal Republic of Germany - The former duty of DM.350 per 100 net kgs. had been reduced to DM.235 per 100 net kgs. as from 1 January 1959 and this reduction applied to all imports. The ad valorem incidence of this specific duty corresponded to a rate of 35 per cent, the level at which the common external tariff would probably be fixed. The decision taken by the Six to reduce their tariffs by 10 per cent for imports from a considerable number of countries and in particular from GATT members had therefore no relevance in the case of Germany which, since 1 January 1959, had been applying in respect of all countries a duty equivalent to the rate provided for in the common external tariff.
- (ii) Benelux - Under the terms of the Treaty of Rome, Benelux was not required to increase the duty on tea until 1 January 1962. There had, therefore, been no alteration in the rate of duty applied to third countries (Fl.50 or B.Frs.658 per 100 net kgs.). The rate of duty for imports from Community countries, including the AOT's, had been reduced by 10 per cent to Fl.45 or B.Frs.592.20 per 100 net kgs. The decision of 3 December did not therefore apply in the case of Benelux where the duty previously applied was lower than the rate provided for in the future common external tariff.
- (iii) Italy - The Duty of Lire 500 per net kg. which had been applied prior to 1 January 1959 to imports of tea from all sources had been reduced by 10 per cent from that date for imports from Community countries which pay therefore only Lire 450 per net kg. The decision of 3 December did not apply in the case of Italy where imports of tea, an agricultural product, had been fully liberalized.
- (iv) France - The rate of duty towards third countries remained unaltered at 30 per cent for black tea and 20 per cent for green tea. Within the Community, including the overseas territories, the duties applied since 1 January 1959 had been 27 per cent for black tea and 18 per cent for green tea. The decision of 3 December did not affect France since the duty prior to 1 January had already been lower than the common external tariff.

(b) Assessment of the Common Tariff

6. The representatives of the Six stated that the rates of the common external tariff which had been fixed were not, however, final for all items as certain Member States might invoke the provisions of Article 17:2 of the Treaty of Rome. As regards the level of the duty the representatives of the Member States stated that it had been worked out on the basis of the arithmetical average of the rates applied on 1 January 1957.

7. The representatives of participating countries other than the Six duly noted that the tariff of 35 per cent had not been finally determined because of the fiscal element involved. They pointed out, however, that this rate of 35 per cent, which represented an increase of 250 per cent over the rate previously applied in the Netherlands, by far the largest tea consumer among the Six, was exceedingly high. They disputed the argument of the representative of the Six that legal rates could have been used for the calculation of the arithmetical average which would thus have resulted in a duty of 44 per cent

being chosen for the common tariff and recalled that no agreement had been reached in earlier discussion on whether or not legal rates could be used in calculating the arithmetical average. Representatives of participating countries other than the Six, suggested that a more acceptable method for the establishment of the common tariff would be the use of a weighted average. This would reflect more clearly the relationship between tea and other competitive beverages and would result in a fairer duty being applied since tea consumption in the three high tariff countries was low, but high in the low tariff country. The attention of the Six was drawn to paragraph 322 of the Haberler Report and also to the footnote on page 116 of that Report.

8. The representatives of the Six recalled once again that the rate of 35 per cent was only the arithmetical average of the duties applied on 1 January 1957 and argued that it was open to them under the GATT rules to take as a basis the average of legal duties, which would have resulted in a rate of 44 per cent. The reason why they had used the first method was precisely because they wished to take account of the interests of third countries. Concerning the use of the weighted average the representatives of the Member States recalled that there had been lengthy discussions during the twelfth session on the problems of the relative merits of the weighted average and the arithmetical average, neither of which gave full satisfaction to the contracting parties. However, taking India as an example, it was clear that the rate of duty on imports from India had been 39 per cent in 1956 and 49 per cent in 1957 and that therefore a duty of 35 per cent was unquestionably more favourable. In the case of Ceylon, it was clear, from the customs levies on imports of Ceylon tea into the Six, that the average amount of duty effectively paid had been 34.4 per cent.

9. The representatives of the participating countries other than the Six could not accept the method of calculation advanced by the Six, as such calculation based on the performance of individual exporters would cut across the principle that the common tariff should not be higher than the general incidence of the tariffs applicable in the constituent territories of the Six. Calculations should therefore be based on total imports from all third country suppliers of the commodity concerned. While not admitting the arguments of the Six it was noted with interest that even according to the calculations made by the Six themselves, the "incidence" in the case of Indonesia (the principal supplier of tea to the Six) would only be 18.5 per cent on the basis of 1956 figures and 10 per cent (1956) in the case of the dependent overseas territories of the United Kingdom.

(c) Fiscal Element

10. The representatives of participating countries other than the Six noted that no final decision had yet been taken on the level of the common tariff because Members of the Community might wish to notify the Common Market Commission in accordance with Article 17, paragraph 2 of the Treaty of Rome that they considered that a fiscal element was included in the duties applied on 1 January 1957. They expressed the view that duties applied in the Federal Republic of Germany, France and Italy had been largely of a fiscal nature and that this fiscal element should be excluded in the calculation of the common tariff on tea, as provided for in Article 22 of the Treaty of Rome. They also noted that during the discussions some of the representatives of the Six, e.g., Italy, conceded that the existing duty on tea included a fiscal element.

11. Participating countries other than the Six further pointed out in this connexion that the reduction on 1 January 1959 of the duty on tea in the Federal Republic of Germany had been offset by an increase in internal fiscal duties and that as the position stood at present this meant that there could be no question of increases in duty in certain countries being compensated, as representatives of the Six had argued at the previous consultation on tea, by corresponding reductions in others.

12. The representatives of the Six stated that they were not in a position to indicate what final decision the Six might take in this field. While admitting that the fiscal element could influence consumption levels, they observed that any such influence would be likely to vary depending upon other circumstances and, in any case, this was a source of revenue on which all governments frequently relied. The representatives of the Six expressed doubt as to the usefulness for participating countries of a debate on the problem of fiscal levies and their repercussions on consumption. They were of the opinion that a study of this kind which was of interest to many third countries where fiscal duties were levied on many consumer goods should be conducted within the framework of the General Agreement, and should cover all such duties applied by contracting parties. The representatives of the Six further recognized that in the case of Italy the duty applied on 1 January 1957 included a fiscal element. They stressed that the decision of the Federal Republic of Germany to raise internal taxes on tea by an amount equal to the amount of the reduction in customs duty was of a purely internal and budgetary nature and did not involve any discrimination.

DEVELOPMENTS IN ASSOCIATED OVERSEAS TERRITORIES

13. The representatives of participating countries other than the Six pointed out that since 1 January 1959 producers in the AOT's had had access to the French, Italian and Benelux markets at a rate of duty 10 per cent below that applied to producers in third countries. They were of the opinion that, as an importer faced with several possible sources of supply would normally choose the the cheapest source even if the difference in price was slight, the prospects for increased production within the AOT's were greater than they had been during the previous consultation in 1958. Statistics indicated that production within the Belgian Congo had increased during 1956-1957 even without the incentive of an applied tariff preference, so further increases in production might be expected now that the tariff preference had begun to take effect and reports of plans for expanded production in the Belgian Congo within the next four years had in fact been received by other producing countries.

14. The representatives of the Six stated that the increase in production and exports of tea in the Belgian Congo had taken place in 1956-1957 and that therefore the increase referred to could not be attributed to the tariff preference arising from the provisions of the Treaty of Rome. They further added that increases in exports had been made possible as a result of an improvement in the quality of tea production which had been given considerable attention in the past few years. With regard to the possibility of future increases in tea production in the Belgian Congo, the representatives of the Six recalled the views that they had expressed on previous occasions and in particular their contention that such expansion would necessarily be limited by certain factors such as the availability of suitable land and the magnitude of the necessary investments.

15. Representatives of participating countries other than the Six disagreed with this view and pointed out that even though the preference at present in effect might be slight, the discrimination in favour of producers in the AOT's which would greatly increase over the next few years, would be almost bound to result in expanded production and consequently in a gradual diminution in the share of third countries in the markets of the Community.

DAMAGE

Actual Damage

16. The other participating countries pointed out that as the discriminatory provisions have been introduced only with effect from 1 January 1959, it would be unreasonable to expect statistical evidence of concrete damage at present. The indications were that import trends within the Community were already changing and that serious damage would inevitably be suffered by third countries unless action were taken now to prevent it. They also stated that they could not agree that the scope of the consultations should be narrowly limited to actual damage.

17. The participating countries other than the Six urged the Community to reconsider their case which was based on production and trade trends since signature of the Treaty of Rome and not to seek to limit the scope of the consultations to actual damage, since by the time such evidence became available serious damage would have been suffered by other producers.

18. The representative of the Six noted that while third countries were not at this stage in a position to submit evidence of actual damage, they entertained certain fears as to the possible effects of the Rome Treaty on their trade with the Six. The representatives of the Member States of the Community noted in particular that such fears concerned their future exports to the Member States and the fact that such exports would decline to the advantage of exports from tea-producing associated territories. The representatives of the Six were of the opinion, however, that such fears were purely psychological and could not at present be substantiated by facts. They wished to stress that imports into the Member States of the Community were considerably lower than those of a country like the United Kingdom, which in 1956 had imported over 230,000 tons of tea, while imports into the Six had not exceeded 20,000 tons, of which a very small amount (11 tons) had come from the Belgian Congo. The fact that exports from the Belgian Congo had increased in 1957 could not be used to demonstrate that the Rome Treaty had already brought about trade diversions. It was difficult to see how tea growers whose crops had been picked in 1957 could have foreseen, at the time when their plantations had been established, that the Rome Treaty would then have entered into force.

POTENTIAL DAMAGE TO THIRD COUNTRIES(a) Diversion of Trade

19. In the view of the participating countries other than the Six the incentive of a tariff preference, possibly as high as 35 per cent ad valorem, would be bound to cause diversion of trade and to result in expansion of production within the AOT's. As tea exports from those territories to the Community gradually increased, tea from other producing territories, which would not be able to compete under such tariff discrimination, would be steadily forced more and more out of the markets of the Six. The threat of damage was imminent since a 10 per cent difference in the duties in favour of the AOT's had already been introduced as from 1 January 1959 in the case of France, Italy and Benelux. That the provisions of the Treaty of Rome would inevitably lead to a change in buying habits within the Community was indicated by the psychological effect which signature of the Treaty had had in 1957, when imports from the AOT's had increased and imports from other areas had declined even before the existence of the preferential margin.

20. The representatives of the Six replied that there was nothing in the data at present available which could substantiate the fears expressed by representatives of certain third countries, and they recalled in this connexion that exports from the Belgian Congo, the only associated territory where tea plantations existed, remained extremely modest (4 tons in 1956). Not only was it difficult to imagine, even over the long term, the trade diversions which some representatives feared, but above all it seemed odd to the Six that the Rome Treaty, which had been signed in March 1957 should be held responsible for certain trade trends which had occurred in the same year.

(b) Substitution

21. The representatives of the Six noted the relationship which representatives of certain third countries had established between the tariff level and the consumption level, leading them to the conclusion that as the tariff level increased consumption would decline. They were doubtful as to the effective impact which tariffs could have on consumption and recalled that the tariff element represented only a part, and sometimes a very small proportion, of the charges to which a product is subject. In their opinion consumption came under the influence of many factors and the tariff aspect was after all only one element in the problem. Experience in France tended to demonstrate that this was the case, since, despite considerable increases in taxes on petrol and wines, consumption had in fact been maintained.

22. On the other hand, the representatives of the participating countries other than the Six held the view that while there was no direct substitute for the items quoted by the Six, other non-alcoholic beverages were directly substitutable for tea and that, therefore, the preceding argument based on petrol and wine was not sustainable. There was also in their opinion a wide measure of discrimination in the proposed common tariff rates for coffee (16 per cent ad valorem), cocoa (9 per cent) and tea (35 per cent) which would definitely encourage a swing in consumer taste away from tea towards these other beverages. It was also pointed out that plans for expansion of coffee production in the AOT's have been developed to quite a significant extent and that this development was bound to affect the consumption of tea in the Community.

GREEN TEA

23. The representative of Japan reminded the representatives of the Six that while Japan exported a certain quantity of black tea, his country was mainly concerned with the possible harmful results on trade with Morocco, Tunisia and Algeria of the introduction of a common tariff of 33 per cent on green tea. The representative of France stated that Morocco was an independent country whose tariff bore no connexion to the French tariff and which did not have to apply the common external tariff as it was not a member of the European Economic Community. The position of Tunisia was more complex on account of the existence of the 1955 Customs Convention, but Tunisia like Morocco was not a member of the EEC and the provisions of the Rome Treaty were not applicable to the trade relations between the Member States and Tunisia. Algeria was therefore the only Japanese market which could be affected by the introduction of the common tariff of 33 per cent on green tea.

24. The representative of Japan pointed out that since the bulk of green tea imports into the Community went to Algeria, where the standard of living was low, it was feared that the introduction of a duty of about 33 per cent, though it might be based on the arithmetical average of tea duties in each Member Country in place of the former French duty of 20 per cent, would have a serious effect on his country's trade, particularly as the French duty was virtually the only one to be applied in practice since the other Member Countries of the Six imported negligible quantities, if any, of green tea. The representatives of the Six undertook to report the concern of the Japanese Government to the competent authorities.

CONCLUSIONS

A. Views of Participating Countries other than the Six

25. Representatives of participating countries other than the Six stated that the export of tea was of vital importance to their continued economic development and to their balance-of-payments position. They recalled the arguments which they had put forward in the Working Party on the AOT's with the European Economic Community (report circulated as L/805) and during the previous Consultation under Article XXII, and urged the representatives of the Six to bear these in mind in determining the level of the common tariff on tea. It was also stressed that unless third countries were able to sell their export commodities to the Member States of the Community unhampered by artificial trade barriers, they would not be able to buy from the Community.

26. The representatives of the Six were reminded that no reply had been received to the memorandum submitted by the Governments of Ceylon, India, Indonesia and Pakistan and with which the Government of the United Kingdom had associated itself, and were asked to give further consideration to the proposals in the memorandum:

- (i) that the level of import duty in the Community should not be raised above that applied in the Netherlands prior to 1 January 1959; and
- (ii) that the incidence of taxes other than import duty should be borne in mind in determining the common tariff.

27. Representatives of participating countries other than the Six recalled the statement of the Representative of the Council of Ministers at the thirteenth session (L/936) that a basis for fruitful discussion lay between mere apprehension as to potential damage and actual damage. They expressed their disappointment that representatives of the Six had not been able to agree that their case, which was based on facts and logical arguments arising from these facts, that damage was imminent, provided this basis for discussion. They further expressed their disappointment that no practical solution which would remove this imminent danger had yet been evolved and that they must again report to their Governments that no progress had been made.

B. Views of the Six

28. The representatives of the Six took note of the apprehensions expressed by representatives of the third countries which had participated in the consultation and undertook to convey this information to the competent authorities. They also undertook to provide a written reply to the memorandum submitted by Ceylon, India, Indonesia and Pakistan within the next two or three weeks.¹ They noted that even in the opinion of the representatives of third countries, it was still too early to produce evidence of concrete damage and were therefore surprised at the disappointment expressed by representatives of third countries about the result of the consultation. Although they themselves were not disappointed in the discussions which, after all, had made it possible to clear up a number of points and to exchange useful information, they had expected new information to be forthcoming in addition to that provided during the previous year, either during the discussions of the Working Party on the AOT's, or during the October 1958 consultation or included in the memorandum submitted during that consultation.

29. The representatives of the Six, while assuring the representatives of third countries that in accordance with their request they would receive a written answer to this memorandum, had hoped for further discussion on facts and figures in order that the discussion could have gone beyond the mere confronting of different contentions. The representatives of the Six were, however, of the opinion that the examination of the present situation and of the reasons for the apprehensions of other participating countries had been very useful and would make it possible, upon their return, to submit a substantial report to the competent authorities.

¹ A written reply to the memorandum has since been given by the Six to the Governments concerned.

ANNEX I
Imports of Tea (SITC 074)
In 1956 and 1957
(metric tons and per cent of total imports)

ANNEXE I
Importations de Thé (CTCI 074)
en 1956 et 1957
(en tonnes métriques et en pourcentage des importations totales)

Import into Destination	Belgium-Luxemburg Union Economique Belgo-Luxembourgeoise		France		Germany, Fed. Rep. Allemagne, Rép. Féd.		Italy Italie		Netherlands Pays-Bas		Total		United Kingdom Royaume-Uni		United States Etats-Unis		Canada		
	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	
Imports from Provenance																			
Total	486	368	1,652	1,760	6,412	6,485	1,340	1,055	10,263	8,842	20,153	16,510	232,759	269,944	45,647	46,424	20,953	21,271	
%	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Belgian Congo - Congo belge	-	-	-	25	29	39	-	-	11	60	40	124	461	910	75	228	-	-	
%				1.4	0.5	0.6			0.1	0.7	0.2	0.7	0.2	0.3	0.2	0.5			
Ceylon - Ceylan	70	54	1,009	928	1,197	1,162	755	533	1,170	960	4,201	3,637	57,120	63,447	19,023	20,904	8,865	9,019	
%	14.4	14.7	61.1	52.7	18.7	17.9	56.3	50.5	11.4	10.9	20.8	19.6	24.5	23.5	41.7	45.0	42.3	42.4	
India - Inde	6	10	180	139	2,792	2,594	222	211	1,101	490	4,301	3,444	136,052	158,234	14,378	12,248	9,516	8,925	
%	1.2	2.7	10.9	7.9	43.5	40.0	16.6	20.0	10.7	5.5	21.3	18.6	58.5	58.6	31.5	26.4	45.4	41.9	
Pakistan	-	-	-	-	-	-	8	-	-	-	8	-	6,344	6,158	30	104	-	74	
%							0.6						2.7	2.3	0.1	0.2		0.3	
Indonesia - Indonésie	-	-	-	116	1,536	1,903	195	152	6,761	6,194	8,492	8,365	3,699	4,358	5,510	6,251	94	114	
%				6.6	24.0	29.3	14.6	14.4	65.9	70.1	42.1	45.2	1.6	1.6	12.1	13.5	0.4	0.5	
Japan - Japon	-	-	-	61	14	16	-	-	-	-	14	77	1,308	1,334	1,607	1,376	295	361	
%				3.5	0.2	0.2					0.1	0.4	0.6	0.5	3.5	3.0	1.4	1.7	
Malaya - Malaisie	-	-	-	35	17	-	-	-	14	21	31	56	1,618	1,017	-	-	104	20	
%				2.0	0.3				0.1	0.2	0.2	0.3	0.7	0.4			0.5	0.1	
Rhodesia and Nyasaland, Fed. Rhodésie et Nyassaland, Féd.	-	-	-	11	-	-	-	-	-	-	-	11	8,303	8,856	94	64	19	-	
%				0.6								0.1	3.6	3.3	0.2	0.1	0.1		
United Kingdom Dependencies : Terr. dépendant du Royaume-Uni:																			
Kenya, Tanganyika, Uganda	-	-	-	-	-	11	-	-	20	65	20	76	8,031	9,068	1,395	1,066	831	768	
%						0.2			0.2	0.7	0.1	0.4	3.5	3.4	3.1	2.3	4.0	3.6	
Mozambique	-	-	-	-	60	43	-	-	99	65	159	128	5,071	5,193	558	412	-	26	
%					0.9	0.1			1.0	1.0	0.8	0.7	2.2	1.8	1.2	0.9		0.1	

Source : Commodity Trade Statistics, United Nations Statistical Papers, Series D

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ANNEX II

MEMORANDUM ON TEA

The object of this joint memorandum submitted by the delegations of Ceylon, India, Indonesia and Pakistan is to draw attention to the basic considerations which are relevant to the consultations with the Six regarding tea. These are:

firstly, the great importance which the export of tea has for the four countries concerned;

secondly, the prospects which exist of increasing the exports of tea; and

thirdly, apprehensions which these countries have of likely damage to their export trade unless, as they hope, the Six adopt policies calculated to give tea access on equitable terms to their markets.

I. Importance of tea exports

The exports of tea account for a substantial proportion of the total earnings of foreign exchange of the four countries submitting this memorandum. Exports of tea amount to about two-thirds of the total exports of Ceylon and and in the case of India they amount to nearly one-quarter.

Each of the four countries is in balance-of-payments difficulties with the world as a whole, and is in consequence compelled to restrict imports from other contracting parties. In her trade with the Six, Ceylon has moved from a position of a surplus in 1955 to a deficit of \$14 million in 1957. India's deficit in her trade with the Six amounted to \$350 million in 1957. The deficit of India and Ceylon with EPU countries is even larger.

Each of these countries is engaged in the task of accelerating its economic development in order to raise the standard of living of its people. To achieve this, increased imports of all kinds and, in particular, of capital goods which the Six are particularly well placed to supply are essential. It should also be remembered that every increase in the standard of living in an area where levels of consumption are notoriously low will lead to a further increase in demand for all kinds of goods. Unless, however, they are able to increase their export earnings, the process of development must be slowed down.

One of the problems in increasing the export earnings of these countries is the lack of adequate surplus for export and of demand for the goods in question in the world outside. Tea, fortunately, happens to be one of the key commodities of which supplies are available in adequate quantities and can be increased. Indeed, from time to time, the production of tea had been in such surplus that the producing countries have had to agree upon regulation of exports.

Turning to demand, it is important to remember that with every growth in the standard of living, with longer weekends and shorter working hours, the consumption of beverages goes up. Considered in this broader framework, tea

is not necessarily a competitor to coffee. It is one of a group of beverages, hot and cold, alcoholic and non-alcoholic, natural and synthetic, which people consume with meals and between meals. Given adequate efforts to promote sales, the producing countries expect to have a steadily rising consumption of tea in the European Economic Community - provided their efforts are not hampered by a high level of restrictions.

So far as the Six are concerned, the following table gives the figures of tea imports for consumption in the last seven years:-

Tea imports for consumption
(Million lbs)

	1951	1952	1953	1954	1955	1956	1957
Belgium and Luxembourg	0.6	0.8	0.8	0.9	0.7	1.0	0.7
France)	2.7	2.7	3.0	3.1	2.7	3.6	3.8
Algeria)	6.9	7.4	7.7	8.5	8.2	8.5	6.7
Germany	4.7	6.1	8.1	10.5	12.0	13.3	13.4
Italy	1.2	1.5	1.8	2.2	2.3	2.9	2.3
Netherlands	15.2	16.2	17.1	17.9	16.2	21.1	17.8
	31.3	34.7	38.5	43.1	42.1	50.4	44.7

II. Prospects for increased exports

In order to increase our exports of tea we think the following lines of action should be followed:-

1. maintenance of established markets,
2. expansion of markets which have shown a tendency to grow, and
3. opening of new markets.

We think it is possible to follow all these lines of action in regard to the six countries of the European Economic Community.

The Netherlands can be regarded as an established market for tea. Even its present consumption figures show this fact. Imports for consumption in the Netherlands in 1939 amounted to approximately 29 million lbs. In 1946 this figure had fallen to about 12 million lbs. Consumption has now picked up to nearly 18 million lbs and the trend is still upward. The aim of the tea exporting countries will, therefore, be not only to a return to pre-war levels of consumption in the Netherlands but also an extension because of a rise in population and a rise in the standard of living. The present duty in the Netherlands on tea is 10 per cent with no internal taxes. The effect of an increase on duty will almost certainly be to inhibit consumption.

In regard to the expansion of a market which has shown a growing trend, the Federal Republic is the best example in the European Economic Community. In recent years the producing countries, along with tea-importing interests have spent a good deal of money in the Federal Republic on an organized tea promotional campaign and the results are very encouraging. Imports for consumption in 1957 in the Federal Republic were 13.4 million lbs, compared to 6.1 million lbs in 1952. The present consumption has exceeded consumption figures in the pre-war period in the whole of Germany put together. It is no doubt true that it is proposed to reduce the import duty from an incidence of about 52 per cent in the Federal Republic to 35 per cent. The Six have, however, indicated that it is open to them to notify a part or whole of the customs duty as being of a fiscal nature. This would mean that additional internal taxes could be imposed instead. From the point of view of the exporting countries this would have the same effect as a heavy import duty.

The intake of tea of the remaining countries of the Six is hardly significant except in Algeria where import for consumption is of the order of 8 million lbs. The other countries of the European Economic Community can, therefore, be regarded as areas where new markets for tea can be developed. In order to create a new market or to transform what might be regarded as an embryonic market into a real one, it is essential that consumers should be offered tea of an attractive quality and at an attractive price. The two factors go together. It would be useless to offer new customers poor quality tea. An adverse import duty would make it impossible to offer tea of a suitable quality at a price which the potential customer may be willing to pay. It is, therefore, essential that in these new markets the sale of tea to the customer at as low a price as possible should be facilitated.

III. Apprehensions

The indication which the Six have so far given us about the level of the common tariff suggests that the low prevailing duty in the most important consumer country would go up substantially and inhibit consumption. A slight reduction in the import duty in the Federal Republic and in Italy would be no consolation to us as the high level of other charges would continue to discourage expansion of consumption.

The consumption of tea within the European Economic Community will receive a setback also because of the duty-free entry of competing beverages from the overseas territories as well as the lower levels of duty applicable to competing beverages originating elsewhere.

The four main producing countries which are presenting this memorandum are anxious

- (a) to restore the tea drinking habit to pre-war standards, taking into account the increase in population and changes in the standard of living and working conditions; and

- (b) to increase its consumption as a second beverage among those for whom coffee is the principal beverage.

With these ends in view the four countries would ask that

- (a) the level of the import duty in the Community should not be raised above that currently applicable in the Netherlands which is the principal tea consumer at present, and
- (b) that the incidence of taxes other than import duty should be kept in mind in taking final decisions.

The considerable capital expenditure on propaganda for tea which we have already started in Germany and would like to undertake in other countries would become a waste unless the Six give sympathetic consideration to the points set out in this memorandum.

The matter is one of immediate importance to us, as we cannot proceed with our export promotion plans without an understanding on these issues.

ANNEX III

Reply to the Joint Memorandum
on Tea, submitted by the Delegations of Ceylon, India, Indonesia and Pakistan to
the Representatives of the Community

The delegations of the Member States of the Economic Community examined closely the memorandum of the above-mentioned delegations explaining the apprehensions of their governments with regard to their tea export to the countries signatory to the Treaty of Rome.

In this memorandum the countries concerned

1. draw, first of all, the attention of the Six to the importance of tea exports;
2. lay out their programmes for commercial expansion based on the
 - (a) maintenance of the existing of the existing markets.
 - (b) extension of the markets that are tending to develop
 - (c) opening of new markets;
3. and, finally, emphasize their anxiety about the level of the common tariff provided for these goods with regard to their expansion programme explained above.

I. With regard to point 1, the Six are aware of the importance for these countries to develop their exports to augment currency reserves.

The Six appreciate the point of view of these countries according to which foreign exchange is needed to buy machinery for economic development.

The Member States of the Community wish to specify that they are particularly interested in the maintenance and development of the turnover of their exchanges with the four countries which established the memorandum. The Six consider in particular that the economic development now in process in these countries opens interesting possibilities for an increase of trade.

The Six consider it useful, however, to draw the attention of these countries to the following points:

(a) Tea export to the Six represents a small percentage only of the total export of most of these countries, as shown below (year 1957 - data in metric tons):

Destination	Ceylon	India	Indonesia	Pakistan
United Kingdom	63,447	158,234	4,358	6,158
United States	20,904	12,248	6,251	104
Canada	9,019	8,925	114	74
Six	3,637	3,444	8,365	-

(b) The substantial development of commercial activity is, in a large measure, connected with the possibility of the countries concerned enlarging the scale of their export products. The Six underline that the Community is interested in any initiative that may help promote trade.

II. With regard to the possibility of improvement of tea export to the Member States of the EEC, the four countries concerned draw the attention of the Six to three cases concerning respectively "an already established market" (the Netherlands), an "expanding market" (the German Federal Republic) and a "new market" (Italy). The Six draw the attention of the interested countries to the following points:

1. The application of the external common tariff for tea involves an increase in duties for Benelux. The memorandum of the countries concerned underlines that the Netherlands are considered as "an already established market". For measuring the eventual effects of an increase of duties on such a market, one must consider that

(a) the large tea import firms and the retail sellers will be interested in the maintaining and increasing of the volume of their sales; the commercial organization of the sector concerned was indeed adjusted to a certain flow of traditional commerce and the parties interested will of course do their best to safeguard this trade and the intercourse;

(b) it is difficult to change the customs and tastes of the consumers of an established market; a slight variation of prices remains almost unnoticed; on the other hand, the raise of the standard of life as a consequence of the Common Market should normally compensate the eventual effects of a slight putting up of prices.

2. Third parties state that the German Federal Republic is an example of an "expanding market". With regard to this, the Six draw the attention of the interested countries to the fact that the external common tariff foresees a reduction of the duties as compared to the present tariff of the German Federal Republic. The rate of the common tariff has come into force on 1 January 1959. Although the internal taxation has increased, the reduction of duties from 52 per cent to 35 per cent remains a fact of considerable interest to third countries. Moreover, the internal taxation avoids any discrimination between the various flows of imports.

3. Third countries mention Italy as a "new market". The present consumption of goods in Italy is indeed very low and there is much likelihood that the fall in prices which might follow the lowering of the duties from 50 per cent (present duty) to 35 per cent would facilitate the present campaign for increase of consumption.

In an expanding market, and even more in a new market, where the two interested groups (the consumers, on the one hand, and the importers and retail sellers) do not exist, or in any case not to a large extent, the reduction of duties will give some advantages. The tradesmen will consider with interest such a sector favouring commercial activity and the consumers will be attracted by products which enjoy reduced prices.

III. Taking this into consideration, the Six draw the attention of the interested countries to the following points:

(a) The coming-into-force of the Common Market will lead to:

- in the case of an "already existing market", an increase of duties which, however, with regard to the above-mentioned reasons, should not react perceptibly on consumption;
- in the case of an "expanding market" as well as in the case of a "new market" to a reduction of duties, which in certain particular cases might favour the developments of consumption.

(b) One must consider, moreover, that the general rise in the living standard in the Member States - as a consequence of the Common Market - will most probably influence favourably the consumption of tea in these countries.

(c) We also repeat that the level of the external common tariff (35 per cent) is only the arithmetical average of the duties applied in January 1957 and that, without infringing the regulations of GATT, the Member States could have had recourse to the arithmetical average of the legal duties, which would have raised the common duty to 44 per cent. They preferred to choose the first method precisely to contribute to the "harmonious development of world trade" (Article 110 of the Treaty of Rome).

(d) Among other causes influencing consumption, third countries mention especially the internal taxation. We would point out that these taxes which are not of discriminating character, and which have an extremely varying influence upon consumption, are nowadays the usual method by which governments obtain revenue. Each country, by applying fiscal taxes must try at the same time to maintain the consumption on a high level - in order to maintain also the amount of the revenue. Consequently, the taxation is inherently limited. This should already lessen the apprehensions of the third countries. This problem of course is not connected with the Treaty of Rome and need not be considered. The Six, however; never oppose suggestions aiming to facilitate the study of the problem.

(e) The Six point out that the fear which was repeatedly expressed regarding the development of tea production in the Belgian Congo, because of the tariff system issuing from the dispositions of the treaty, seems unjustified. First, the consumers of the Member States prefer other tea qualities and, second, the increase in tea production in the Belgian Congo is limited by various important factors, such as the special geographical situation of the soils appropriate to these plantations, the climatic conditions, the lack of available areas for the extension of the plantations, due mainly to the agricultural policy applied in these territories, and the importance of the investments necessary. Tea production in this region is not likely to provoke the diversion of traffic that third countries feel.