

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

MTN/3F/3/Add.1

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Multilateral Trade Negotiations

GROUP 3(f) - POINTS MADE BY MEMBERS AT THE MEETING OF APRIL 1974¹

Note by the Secretariat

1. At its meeting on 23-25 April 1974, Group 3(f) requested the secretariat to prepare a note summarizing the general observations and specific points made by members on the various items which were taken up for discussion.
2. The Group had before it documents MTN/3F/W/3 and Add.7 thereto containing statistical data and information on commercial policy and MTN/3F/W/3/Add.1-6 providing, for each commodity², a summary of what appeared to be the main points emerging from the basic material. A note on recent developments in other international organizations was also included. While members of the Group considered that the information in the documents generally met the requirements set out in the work programme, there were instances where it was felt that further information would be helpful in identifying the problems facing the commodities under examination. Relevant suggestions in this regard have been included in the following paragraphs.

A. General observations

3. With reference to Table I of MTN/3F/W/3, members of the Group noted that a large number of developing countries, including several of the least developed among them, depended for a significant part of their export earnings on one or a few tropical products. In this connexion, the spokesman for the European Economic Community pointed out that a number of Associated States as well as certain "Associable" countries fell within this category.
4. It was also noted that although there were significant differences in developments as between commodities, the products examined were generally characterized by fluctuations in quantities and prices of exports with consequent substantial variations in export receipts. Referring to the information on price developments in MTN/3F/W/3/Add.7, some members of the Group noted that certain items (e.g. tea and bananas) had experienced a serious price decline or had been subject to price

¹This note should be read in conjunction with MTN/3F/3.

²Cocoa, coffee, tea, bananas and pepper in their raw, semi-processed and processed forms and certain vegetable oilseeds, oils and oilcake.

stagnation over the last twenty years. Some members stated that in regard to a number of tropical products, prices, although having risen in absolute terms over the period, had generally tended to decline in relation to constantly rising prices of manufactures. They felt that the upward price movements of certain tropical commodities in 1973, which had occurred for various reasons might not endure, as among other things, there was some expectation that the level of economic activity in major consuming countries may slow down in 1974.

5. Members from exporting countries stated that the inflationary situation in developed countries had had a substantial impact on the cost of production and cost of exporting tropical products, thus making returns to producers less remunerative. The rising cost of such inputs as fertilizers, insecticides, fuel and packaging material as well as of transportation and marketing were adversely affecting export receipts. In order to make exports more remunerative, efforts were being made to increase production of semi-processed and processed tropical products. It was therefore important that exports of such items by developing countries should not be hindered by trade barriers. Some members pointed to the limited application of the Generalized System of Preferences (GSP) to products falling within Chapters 1-24 of the BTN and hoped that this situation could be remedied. The Group welcomed the statement by the representative of Canada, that the Canadian GSP scheme would be implemented on 1 July 1974.

6. The representative of a group of countries stated that the problems facing tropical products, characterized by instability of prices and quantities, were due to complex reasons. For this reason, the reduction or elimination of trade barriers would not be the only important factor to be considered in resolving these problems, but other factors such as the stabilization of prices and export earnings would be equally relevant. It was therefore important that these issues should be tackled as a whole and that, for certain items, commodity arrangements would be helpful in finding solutions.

7. Some members stated that the information provided in the documentation had led them to identify the following problem areas which needed to be taken up on tropical products - the continued maintenance of tariffs on certain unprocessed products; tariff escalation on semi-processed and processed products; special preferences; quantitative restrictions, internal taxes and other non-tariff measures; and price instability.

8. While suggestions relating to the provision of additional information on certain items are included in the paragraphs dealing with the products in question, proposals of a more general nature were also made. One member suggested that information be collected on production, exports and re-exports of semi-processed and processed tropical products by developed countries. Production figures for major developing countries might also be shown. In addition, details might be collected with respect to (i) trade barriers maintained by the main developing countries and centrally-planned economy countries; (ii) export measures (e.g. export subsidies, taxes, export restraints etc.) having a trade distorting effect and (iii) the influence of State trading and other monopolies on trade in tropical products in importing and exporting countries.

9. Some members proposed the inclusion of additional items in the programme of work and elaborated on certain items already listed in Annex 1 of MTN/3F/1. It was suggested that products falling within Chapters 25-99 of the BTN, such as jute, hard fibres, buffalo hides and Indian kips, which are produced primarily in tropical areas, should be examined in the Group. A number of other items were also mentioned in this respect, including certain essential oils, cashew shell liquid (ex 13.03) and cashew nut kernels, exotic fruit, black and oriental tobacco and virginia flue-cured and sun-cured tobacco as well as sun-cured tobaccos of the country and jutti varieties. In regard to virginia tobacco, one member drew attention to the importance of this product in his country's exports and suggested that trade in this item be examined in Group 3(f) or Group 3(e), as appropriate. One member also suggested that the Group should give consideration to natural gums, flowers and ornamental plants, honey and cotton and cottonseed and the oil and oilcake thereof.

10. Some members, however, pointed to the desirability of limiting the product coverage of the work programme to acceptable proportions and in this regard suggested that the following criteria be used as a guide: the degree of processing, the degree to which the item is produced in substantial quantities in non-tropical countries and the degree to which a study is being undertaken or contemplated in other groups of the Trade Negotiations Committee. One member suggested that in the work programme priority should be given to those items which are mainly produced in tropical areas and which are traded in substantial volume. Some members suggested that certain agricultural products (rice, sugar and sugar products, and tobacco) which were significantly produced in temperate zones could more appropriately be taken up in Group 3(e) and that the results of such a study would facilitate a more comprehensive discussion subsequently in Group 3(f) on the tropical aspects of these products. It was also suggested that certain items falling within Chapters 25-99 might more appropriately be transferred to Groups 3(a) and 3(b) for consideration.

11. In considering the various proposals and criteria put forward, the Group agreed that, in the further work to be undertaken, the secretariat would adopt a flexible approach both with regard to product coverage and the collection of data, taking into account the comments and observations made by members (MTN/3F/3, paragraph 6).

B. Specific points

Cocoa

12. Members noted that eleven countries depended on cocoa exports for over 10 per cent of their export earnings and two for over two thirds. Members from certain major cocoa producing countries stated that because of their heavy dependence on cocoa bean exports, the economies of their countries were extremely vulnerable to fluctuations in prices for this commodity. In their view, price movements were due not only to changes in supply and demand, but also to business and trade cycles and speculative activities in developed countries. It was also important to recognize that the cost of producing cocoa beans had risen rapidly

and therefore more remunerative prices were needed to maintain and encourage production. In this regard, members noted that in recent months, the International Cocoa Council had been giving consideration to the level of the price range provided for in the International Cocoa Agreement in the light of market developments.

13. Members from cocoa producing countries stated that efforts were being made to expand the manufacture of semi-processed and processed cocoa products as part of their diversification effort and also to raise the level of export earnings. To contribute to this process in developing countries, these members emphasized the need for the removal of trade barriers facing such products in the markets of developed countries. In this connexion, attention was drawn to the situation where tariff reductions had been made on sweetened cocoa powder and chocolate between a group of developed countries on the one hand, and certain other developed countries and a number of developing countries who were not producers of cocoa beans, on the other. At the same time, some developed countries maintained high tariffs and other barriers to imports of the ingredients of sweetened cocoa powder - notably cocoa and cane sugar - when imported from certain tropical producing countries.

14. In response to a question concerning the basis for estimates of per capita cocoa consumption shown in Table IVAa 4 of MTN/3F/W/3, a representative of the secretariat stated that the figures in the table were based on grindings of beans adjusted by net trade in cocoa products including chocolate, expressed in bean equivalent. Since the proportion of cocoa used in chocolate production may vary in response to prices and other factors, the data should be considered as an indication of the approximate order of magnitude only.

15. Some members suggested that certain additional information regarding cocoa might be usefully compiled. Because exports of sweetened cocoa powder (ex 18.06) are of considerable importance for developing countries, separate data should be collated for this item. Some members also suggested that information on production, exports and re-exports of semi-processed and processed cocoa products from developed countries would be useful in examining the problems facing trade in these items.

Coffee

16. In referring to the development of coffee bean prices over the period 1953-1973 (MTN/3F/W/3/Add.7), one member stated that the highest price was obtained in 1954 and since that time prices had generally shown a downward trend. Even the higher average price achieved in 1973 was below that of 1954. The relatively high level reached recently was due mainly to world inflation, increases in the prices of imported goods needed for coffee production and speculative purchases on commodity exchanges. It was also noted that there had been a build-up in inventories in importing countries. There was thus no certainty that coffee prices would continue at recent levels. This member stated that the importance of coffee to many developing countries was evident from the

data compiled. For this reason it was important that special attention be given to this product, taking into consideration that any solution to the question of prices should have regard to the need to establish remunerative prices. The member stated that the group should also bear in mind the activities of the International Coffee Organization when dealing with this product.

17. Some members, in commenting on the development of prices for coffee, noted that price fluctuations in respect of this commodity in recent years had been less evident than for certain other items shown in MTN/3F/W/3/Add.7. This feature may have been attributable to the operations of the International Coffee Agreement during the period.

18. Attention was drawn to the increase in the number of developing countries that had recently been playing an important rôle in the international coffee trade. It was pointed out that the exports of some of these countries were increasing at a rate faster than the world average.

19. Reference was also made to the continued maintenance of trade barriers on coffee, especially tariffs on coffee at different stages of processing, and internal taxes. The removal of such barriers should be taken up in the course of the multi-lateral trade negotiations.

Tea

20. Referring to the development of tea prices shown in MTN/3F/W/3/Add.7, a member stated that the decline over the last twenty years had considerably eroded the export earnings of his country which depended on tea exports for as much as one half of its total export receipts. Among the six commodities for which data had been provided, tea was the only one in respect of which prices in all the years from 1966 to 1973 were substantially lower than the price in the base year, i.e. 1963. Even in 1972-1973 when there had been a substantial increase in commodity prices, the average price of tea at London auctions had declined by 1.2 per cent. There was some doubt that price increases reported at London auctions during the early months of 1974 would endure. While world tea exports had increased in volume terms by 9 per cent between 1967 and 1972, they had increased in value terms by only 2 per cent. Furthermore, the real terms of trade had in general continued to deteriorate for tea exporting countries as the cost of imports of manufactures had constantly increased.

21. With reference to trade barriers, this member expressed appreciation for the measures taken by certain developed countries to eliminate or reduce duties on bulk tea and tea in small containers on a most-favoured-nation basis or under the GSP, but noted that one major industrialized country, with a potential for an increase in consumption, still maintained duties on both bulk tea and tea in retail packages. He also noted that extracts, essences and concentrates of tea were subject to higher tariff rates in a number of developed countries. Furthermore, the documentation provided by the secretariat indicated that tariff reductions on

tea extracts and essences had been made between a group of developed countries and certain other countries which were not producers of the raw material. He considered that import tariffs, which afforded protection to domestic tea processors in developed importing countries or to other non-producing countries to the detriment of developing country producers, should be eliminated.

22. With regard to non-tariff measures, this member noted that tea was subject to significant internal taxes in certain developed countries. He suggested that in the event that such countries are not in a position to remove these taxes, they might, as an alternative, consider refunding the proceeds to exporting developing countries or at least place funds at the disposal of these countries for use in the promotion of tea consumption, for research into new uses of tea, and for the development of new forms of processed tea.

23. In connexion with the need for strengthening and stabilizing tea prices, this member reserved the right to revert to this aspect at a future meeting of the Group.

24. One other member in associating himself with the remarks outlined in the above paragraphs, suggested that additional information might be collected on production and consumption of bulk tea and tea in retail packages in a developed producing country and consumption only for bulk and packaged tea in other countries continuing to maintain import restrictions on these items.

Pepper

25. Members from pepper exporting countries noted that while unground pepper continued to be dutiable in a few developed countries, duties on ground pepper and pepper in retail packs were far more prevalent. In order to encourage the processing and packaging of pepper in producing countries, it was proposed that the remaining tariffs applied to pepper in developed importing countries should be removed.

26. One member drew attention to the decision by a group of developed countries in January 1973 to provide duty-free entry for pepper used in the manufacture of essential oils and resinoids while maintaining most-favoured-nation tariffs on ground and unground pepper for other purposes. He indicated that there was concern in the pepper trade that this would result in a shift in demand away from higher grades to lower grades of pepper resulting in a reduction in the foreign exchange earnings of pepper producing countries. He believed that while definitive conclusions could not be derived on the basis of only one year's experience, it would be useful to examine the 1973 trade figures for this group of countries, if they were available in the necessary detail, to see what the trend in pepper imports had been in comparison with previous years.

27. This member suggested that information might also be collected on the varieties and grades of pepper exported by the main supplying countries in terms of quantity, value and destination in order to obtain a more comprehensive appreciation of the market and commercial policy situation. One other member suggested that the collection of information on production and consumption of pepper would also be helpful in any future examination of this commodity.

Bananas

28. Members noted that thirty countries and territories were each responsible for banana exports valued at \$1 million or more. Eleven countries and territories depended on bananas for more than 10 per cent of their export earnings and some for about one half of their export receipts.

29. In referring to the documentation on bananas available to the Group, some members noted the unsatisfactory level of prices achieved for this commodity over the last twenty years. Having regard to the greatly increased costs of production, packaging and transport, producers had been clearly put at a price disadvantage. Furthermore, the terms of trade for banana producing countries had also been adversely affected particularly by the constantly increasing costs of imports. It was therefore important that the question of unremunerative banana prices be tackled by the international community and the producing countries.

30. Having in mind the objectives of increasing consumption in importing countries and providing producers with satisfactory returns, some members proposed the removal of tariff and non-tariff barriers to trade in bananas. It was noted in particular that consumption in centrally-planned economy countries was very low and consideration would need to be given to ways of increasing access to these markets for this commodity. Some members also referred to duties on banana imports applied by a number of developed countries, in particular the EEC, Japan, Finland and Switzerland and proposed that these should be removed in the trade negotiations. It was pointed out that as a result of the enlargement of the European Communities, the duty of the United Kingdom would be increased from 10 to 20 per cent. These members added that ways and means might be explored for ensuring that tariff reductions would bring about actual benefits to exporting countries such as increases in export receipts. In those cases where special preferences applied, arrangements would need to be found to safeguard the interests of preferential suppliers as duties were eliminated.

31. Some members considered that the selective tax applied to bananas by Italy had a detrimental effect on consumption in that country and should also be removed. In referring to the maintenance of quantitative restrictions on banana imports by certain developed countries, some members suggested that those restraints should also be removed or administered in a manner to avoid the possibility of supply shortages arising to meet consumer demand. There would be a need, however, to work out ways of safeguarding the interests of certain preferential suppliers whose interests had been sheltered by these measures.

Certain vegetable oilseeds, oils and oilcake

32. The vegetable oilseeds, oils and oilcake covered in the documentation before the Group included palm kernels and palm-kernel oil, palm-oil, copra and coconut oil, groundnuts and groundnut oil, castor oilseed and castor oil and oil meals and cake thereof.

33. In referring to the importance of these items in the exports of developing countries, some members noted that for varying reasons including the availability of supply and to an extent substitution, trade had been characterized by price instability over the last two decades. This situation had had an adverse effect on the economies of a number of developing countries and had imposed strains on their balance-of-payments positions. The unpredictability of export income from the sector had also created difficulties in economic planning. -

34. Some members stated that a contribution towards the problems facing exporters of tropical vegetable oilseeds, oils and oilcakes could be made by the removal of barriers to trade in these items. It was noted that while vegetable oilseeds were admitted duty-free into most developed countries, vegetable oils were often dutiable, the rates of duty increasing according to the degree of processing. In view of the relatively low value added in crushing and processing, these tariffs often reflected a high level of effective protection. Some members noted that certain of these items were subject to a number of non-tariff measures which should also be taken up in the trade negotiations.

35. With regard to castor oil, some members stated that this item should be treated separately from other tropical oils because of its special end uses. Noting that this product was now enjoying an increasingly high demand, they believed that tariffs and non-tariff measures including selective taxes applying to this product appeared unjustified and unnecessary.

36. Some members recalled the Group of Three recommendation in 1971 (L/3610) to the effect that developed countries should consider the possibility as part of concerted action of eliminating (or reducing) import duties on vegetable oils of interest to developing countries either within the context of the GSP or in some other form of concerted action. In this connexion, a certain number of developed countries had expressed their willingness to consider the possibility of taking part in concerted action in this field provided all or practically all developed countries participated.

37. Some members from exporting countries stated that one of the problems facing tropical oils was increasing competition from other oils such as soyabean oil and sunflower seed oil, and that the prospects for tropical oils were dampened by this competition. They considered that the elimination or deeper reduction of tariffs and the removal of non-tariff barriers on tropical oils would help improve the competitiveness of these oils.

38. In regard to oilcake, it was noted that while most developed countries did not maintain tariff barriers, internal taxes and other charges were sometimes applied. Referring to the need for removing these barriers to trade, one member mentioned the importance to his country of expanding exports of oilcake which in turn would contribute to the financing of imports of vegetable oilseeds and oils from other countries.

39. Some members, in agreeing that the multilateral trade negotiations provided an opportunity for making progress in the removal of barriers to trade in vegetable oilseeds, oils and oilcake, stated their belief that this objective should be sought on a most-favoured-nation basis for the sector as a whole. In order to diagnose all the problems, including problems arising from competition and substitution facing trade in these products, it was considered desirable to examine the sector in its entirety. The Group agreed to procedures for this purpose (MTN/3F/3, paragraph 4) on the understanding that it would be able to pursue the discussion on particular aspects of tropical oilseeds, oils and oilcake in the light of the documentation and views expressed on the subject by Group 3(e).

40. Some members suggested that additional information would be useful in assessing the situation for certain products relating to the sector. One member proposed the preparation of a table on price developments for cottonseed oilcake along the lines of the information contained in MTN/3F/W/3/Add.7. One other member suggested the collection of trade and commercial policy data for derivatives of castor oil.¹

¹The following list of derivatives of castor oil has been received from the member: "heptaldehyde, undecylenic acid, dehydrated castor oil, dehydrated castor oil fatty acid, "belo blown" castor oil, gelled castor oil, hydrogenated castor oil, 12 hydroxy stearic acid, zinc undecylenate, castor oil fatty acid split".