

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

MTN/3F/W/3/Add.1

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## Multilateral Trade Negotiations

### GROUP 3(f) - BACKGROUND INFORMATION ON CERTAIN TROPICAL PRODUCTS

#### COCOA AND COCOA PRODUCTS

##### Note by the Secretariat

1. In document MTN/3F/W/3 containing statistical information on certain tropical products it is stated that separate material is being issued covering the main points emerging from the data. These notes are being issued in the form of separate addenda for each of the items dealt with in the statistics which should be read in conjunction with the descriptive notes. Relevant statistics in COM.TD/W/189 should also be taken into account. In accordance with paragraph 7 of MTN/3F/2, the Group is expected to review and analyze this material with the objective of arriving at a full diagnosis of the problems affecting the commodities in question. It will be open to the Group to consider whether, in relation to any specific commodities, further analytical work would be needed on particular aspects.
2. This note, addendum 1, is concerned with cocoa and cocoa products.

#### Recent trends and trade patterns

3. Table IV Aa1 of MTN/3F/W/3 provides details of cocoa bean exports by quantity and value for the years 1967 to 1972 inclusive. During this period, exports increased in dollar value terms from \$593 million to \$867 million in 1970 but then fell back to \$727 million in 1972. The details provided in the table showing price developments in the form of an index of prices (table III) reflect the significant year-to-year fluctuations in prices for cocoa beans. It may be noted that while the index for 1967 was 110 (1963 = 100), it moved to 127 in 1970 and then to 117 in 1972 after showing a decline during the period 1964-1966. The index for cocoa beans showed a marked upward movement in 1973 to 223, thus suggesting a rise in export returns resulting from a supply/demand imbalance (table IV Aa3). Between 1967 and 1972, the price index for all primary products (excluding fuels) moved from 106 to 130 and in 1973 increased further to 189. The index for manufactured goods during the same period rose from 105 in 1967 to 133 in 1972 and 152 in 1973. A more systematic year-by-year comparison of movements in the index, as well as quarterly price movements for the last three years, is provided by table III.<sup>1</sup>

<sup>1</sup>It should be noted that the price index for all primary commodities averages out price movements for a large number of individual commodities sometimes with divergent trends.

4. Information provided in document COM.TD/W/189 shows that approximately 70 per cent of available supplies of cocoa beans were imported into developed countries from developing countries at most-favoured-nation rates of duty and 27 per cent at special preferential rates (table 18A). The pattern between 1964 and 1970 indicated a decline of approximately 9 per cent in the m.f.n. market share of developing countries and a corresponding increase in the share of trade of developing countries subject to special preferential rates of duty.

5. Twenty-five developing countries were each responsible for cocoa bean exports valued at more than \$1 million in 1972 (table IVa2). Those countries for which cocoa beans accounted for 10 per cent or more of total export earnings in 1970 included Ghana, Equatorial Guinea, Togo, Western Samoa, Cameroon, Ivory Coast, Papua/New Guinea, Nigeria, Dahomey, Ecuador and Dominican Republic (MTN/3F/W/3, table I). In terms of value of cocoa bean exports, shipments from Brazil were also significant (MTN/3F/W/3, table IV A). The above countries accounted for more than 90 per cent of exports in 1972.

6. Table IV A also indicates the trade pattern by quantity and value for the years 1967 to 1972 inclusive in respect of certain semi-processed cocoa products. World exports of cocoa paste increased in value from \$19 million to \$35 million, cocoa butter from \$162 million to \$184 million and cocoa powder from \$23 to \$37 million. Table III shows that the price index for cocoa butter, the most important semi-processed cocoa item entering international trade moved during the period 1967/1972 in approximately the same fashion as for cocoa beans (1967 = 110 and 1972 = 119). As for the raw material, the index for cocoa butter increased substantially in 1973 to 230.

7. Document COM.TD/W/189 provides details of trade at m.f.n. rates and special preferential rates of duty for the semi-processed items during the year 1970. With regard to cocoa butter, approximately 90 per cent of imports into developed countries took place at m.f.n. rates of duty. Of this quantity, 50 per cent originated in developing countries and 40 per cent in developed countries. Approximately 10 per cent of imports entered at special preferential rates of duty.

8. As regards chocolate and other preparations containing cocoa (BTN 18.06), document COM.TD/W/189 contains information on the pattern of world trade between 1964 and 1970. Total imports into developed countries during 1970 were valued at \$120 million of which \$1.52 million were imported from developing countries at m.f.n. rates of duty and \$2.7 million at special preferential rates, the balance of trade shown in the tabulations taking place between developed countries of which \$67 million was on an m.f.n. basis.

#### Consumption

9. Table IV A a 4 shows details of per capita consumption in a number of countries during the period 1964-1971. While it is difficult to generalize, there has been an upward trend in per capita consumption in most countries listed in

the table. Per capita consumption in Western Europe, North America and Australia was mostly within the range of 1.5 to 3.2 kilogrammes per head during the period covered, Italy together with Japan being significantly below this level as were those countries of Eastern Europe shown in the table.

### Tariffs

10. Details of import duties applied to cocoa and cocoa products by developed importing countries are recorded in Tables IIAa to IIAe inclusive. In order to readily identify certain aspects of the tariff situation, this information has been reproduced below in a slightly different format.

11. While the m.f.n. rates of duty for a number of importing countries clearly reflect a degree of tariff escalation between the raw, semi-processed and processed cocoa product, this has been mitigated to a certain extent by the implementation in some countries of the Generalized System of Preferences. In this connexion, it may be noted that the GSP schemes of Canada and the United States have not so far been introduced. Under the GSP, tariff escalation continues to be evident in certain markets. Cocoa beans are free of duty in all countries indicated in the table either at the m.f.n. level or through duty suspensions or the GSP, except in the EEC where the m.f.n. tariff is 5.4 per cent, the provisionally applied rate of duty being 4 per cent.

12. With regard to EEC special preferential rates of duty, details have been provided in the table below on the basis of available information. The associated African States, Malagasy and East African countries are entitled to duty-free entry for cocoa and cocoa products falling within 18.01-18.05 of the BTN. Under arrangements between the EEC and certain Mediterranean countries, these latter countries are subject to duty free treatment or intermediate rates of duty for semi-processed and processed cocoa products. In respect of item 18.06 transitional reduced rates of duty are applicable to trade between EEC and EFTA countries. It may be noted that imports into the United Kingdom, Denmark and Ireland from the "associable" Commonwealth countries and the Associated States (AASM and EAC) are permitted entry, pending the re-negotiation and enlargement of the association arrangement, at rates of duty applicable prior to accession.

RATES OF TARIFFS APPLICABLE TO COCOA AND COCOA PRODUCTS

TQ: Tariff quota  
V: Variable levy

Countries	Tariff Nos. and product description	Tariffs			
		m.f.n. rates (1973)	Reduced or suspended m.f.n. rates	Preferential rates, other than GSP	GSP rates
Australia <sup>1/</sup>	18.01 Beans	Free		Free	
	18.03 Paste	\$A 0.018/kg.		\$A 0.013/kg.	Free
	18.04 Butter	\$A 0.037/kg.		\$A 0.018/kg.	Free
	18.05 Powder	\$A 0.072/kg.		\$A 0.037/kg.	Free
	18.06 Chocolate etc.	47.5% + primage 10%		22.5% + primage 5%	10% + primage 7.5%
Austria	18.01 Beans	7% (raw) 10% (other)	Free		Free 5%
	18.03 Paste	25%			Free
	18.04 Butter	8%	5%		Free
	18.05 Powder	27%			14%
	18.06 Chocolate <sup>2/</sup> etc.	32% with minimum S 4.6/kg.+V			-
Canada	18.01 Beans	Free			
	18.03 Paste	1¢/lb.	Free	-	<u>Free</u> <sup>3/</sup>
	18.04 Butter	Free			
	18.05 Powder	15%			<u>10%</u> <sup>3/</sup>
	18.06 Powder sweetened	15%	10%		<u>10%</u> <sup>3/</sup>
	In forms other than powder	15%	10%	10%	<u>10%</u> <sup>3/</sup>
	Sugared cocoa paste	2¢/lb.			<u>1¢/lb.</u> <sup>3/</sup>
EEC	18.01 Beans	5.4%	4%	Free <sup>4/</sup>	-
	18.03 Paste	15%		Free <sup>5/</sup>	-
	18.04 Butter	12%		Free <sup>5/</sup>	<u>8%</u> <sup>8/</sup>
	18.05 Powder	16%		Free <sup>5/</sup>	<u>TQ</u> <sup>7/</sup>
	18.06 <sup>2/</sup> Sweetened powder	10%+V		Free <sup>6/</sup> +V	7%+V
	Chocolate etc.	12%+V		Free <sup>6/</sup> +V	

Countries	Tariff Nos. and product description	Tariffs			
		M.f.n. rates (1973)	Reduced or suspended m.f.n. rates	Preferential rates, other than GSP	GSP rates
United Kingdom	18.01 Beans	Free	Under alignment to the Community rates <sup>7/</sup>	<u>8/</u>	
	18.03 Paste	Free			
	18.04 Butter	Free			
	18.05 Powder	Free			
	18.06 Sweetened powder	£0.25/cwt.			
	Chocolate milk crumb	£0.3/cwt.			
	Chocolate etc.	£0.2/cwt.			
Denmark	18.01 Beans	Free	As above <sup>7/</sup>	<u>8/</u>	
	18.03 Paste	Free			
	18.04 Butter	Free			
	18.05 Powder	Free			
	18.06 Chocolate etc.	15% with minimum DKr 0.45/kg.			
Ireland	18.01 Beans	Free	As in the case of the United Kingdom <sup>7/</sup>	<u>8/</u>	
	18.03 Paste	£0.12/lb.			
	18.04 Butter	Free			
	18.05 Powder	£0.12/lb.			
	18.06 Chocolate etc.	£0.12/lb.			
Japan	18.01 Beans	Free	25%	5% (not defatted) 10% (other) Free 15% -- - 12.5%	
	18.03 Paste	10% (not defatted) 20% (other)			
	18.04 Butter	5%			
	18.05 Powder	30%			
	18.06 Chocolate confectionery	35%			
	Other: containing added sugar	35%			
	not containing added sugar	25%			

Countries	Tariff Nos. and product description	Tariffs			
		M.f.n. rates (1973)	Reduced or suspended m.f.n. rates	Preferential rates, other than GSP	GSP rates
Sweden	18.01 Beans	Free			-
	18.03 Paste	SKr 0.10/kg.			Free
	18.04 Butter	SKr 0.10/kg.			Free
	18.05 Powder	SKr 0.10/kg.			Free
	18.06 Sweetened powder for pudding	Free + V			-
	Puddings, flakes etc.	20%			-
	Other (including chocolate <sup>2/</sup> )	5%			Free (Block and slab chocolate and chocolate coated products)
Switzerland	18.01 Beans	Free			-
	18.03 Paste	Sw F 0.40/kg.			Free
	18.04 Butter	Sw F 0.025/kg.			Free
	18.05 Powder	Sw F 0.40/kg.			Sw F 0.28/kg.
	ex 18.06 Chocolate <sup>2/</sup>	Sw F 0.50/kg.			-
New Zealand	18.01 Beans	3NZ 0.0205/lb. (raw)		Free	Free
		50%		25%	
		(other)			
	18.03 Paste	30%		15%	
	18.04 Butter	Free			
	18.05 Powder	30%		15%	
Norway	18.06 Chocolate etc.	47.5%		32.5%	
	18.01 Beans	Free			
	18.03 Paste	Free			
	18.04 Butter	Free			
	18.05 Powder	NKr 0.40/kg.			Free
	18.06 Chocolate <sup>2/</sup> etc.	NKr 1.0/kg. (chocolate, sweetened cocoa powder, ice cream)			-
		NKr 0.50/kg. (other)			-

Countries	Tariff Nos. and product description	Tariffs			
		M.f.n. rates (1973)	Reduced or suspended m.f.n. rates	Preferential rates, other than GSP	GSP rates
Finland	18.01 Beans	Free (raw) 5% (other)			Free
	18.03 Paste	5%			Free
	18.04 Butter	2%			Free
	18.05 Powder	10%			Free
	18.06 Chocolate <sup>2/</sup> etc.	Fmk 0.74/kg. + import tax			-
United States	18.01 Beans	Free			
	18.03 Paste	Free			
	18.04 Butter	3%			<del>Free</del> <sup>3/</sup>
	18.05 Powder	\$0.0037/lb.			<del>Free</del> <sup>3/</sup>
	18.06 Unsweetened chocolate	Free			
	Sweetened choco- late in bars of 10 lb. or more	0.46/lb.			<del>Free</del> <sup>3/</sup>
	Chocolate in other forms	5%			
	Sweetened cocoa powder	5%			<del>Free</del> <sup>3/</sup>
	Candy and other confectionery containing cocoa	7%			<del>Free</del> <sup>3/</sup>

Explanatory notes:

<sup>1/</sup> The Australian duties indicated are those applied prior to a general tariff reduction (excluding a small number of revenue items and anti-dumping duties) of 25 per cent introduced in July 1973.

<sup>2/</sup> Transitional reduced rates are applicable to trade between EEC and EFTA countries.

<sup>3/</sup> Indicative rates shown in the proposed GSP schemes for Canada and the United States.

<sup>4/</sup> Associated African States and Malagasy (AASM) and East African countries (EAC).

<sup>5/</sup> AASM, EAC, GRC, TUR, MOR and TUN. Intermediate rates applicable to imports from ISR, SPN, MLT, CYP, EGY, LEB.

<sup>6/</sup> AASM, EAC, GRC, MOR, TUN. Different transitional rates also apply for EFTA suppliers.

7/ In accordance with the Treaty of Accession to the European Communities, the three new member States, viz the United Kingdom, Denmark and Ireland are aligning both most favoured nation and where applicable, preferential duties for third countries in their respective national tariff schedules to the rates in the Common Customs Tariff (CCT) of the European Communities by reducing in successive stages the difference between the rates in the national tariff schedules and the Community's CCT. The first alignment resulting in the reduction by 40 per cent of such difference was made by the new member States on 1 January 1974. The remaining alignments will take place in three stages, so as to reach the CCT rates by 1 July 1977. The enlarged Community has offered to negotiate possible association arrangements with Commonwealth countries in Africa, the Caribbean and the Pacific and negotiations are at present in progress with these and certain other countries in Africa. In the interim period however, and up to 31 January 1975, imports from the Commonwealth countries mentioned above and Associated African States and Malagasy are being allowed into the United Kingdom, Denmark and Ireland at the rates which applied prior to their accession.

8/ The 1974 GSP scheme of the EEC covers also the new member States. For item 18.04 - cocoa butter, the individual country quotas fixed for imports under the preferential rate are as follows (in metric tons): Federal Republic of Germany 800; Benelux 12,150; France 100; Italy 50; Denmark 50; Ireland 50; United Kingdom 8,400. Imports which enjoy exemption from customs duties under other preferential arrangements granted by the Community may not be charged to the quotas. For imports under quota into United Kingdom, Denmark and Ireland, a rate of 3.2 per cent applies in 1974 instead of 8 per cent applied in the original six EEC countries.

### Internal taxes

13. Details of internal taxes applied to cocoa and cocoa products are contained in table II of the statistical material. Importing countries utilizing the value-added system of taxation (VAT), which is a revenue charge of general application, in most cases apply taxes to tropical products. Although some countries such as the Nordic nations, have adopted a single rate of taxation applicable to almost all products, others, including the EEC member States, generally have more than one rate of tax in their schedules.

14. With respect to cocoa and cocoa products, it will be seen that in some cases the reduced rate of VAT is applied, while in other cases, the standard (higher) rate is utilized. On the basis of the information contained in table II A, France and Belgium, for example, apply reduced rates of VAT to cocoa beans and certain semi-processed cocoa products, while other countries, e.g. Federal Republic of Germany, Netherlands, and Italy generally apply the standard value-added tax rates. There are instances where the reduced VAT rate is applied to certain cocoa items and the standard rate to others. Under the United Kingdom value-added tax system, most food products including cocoa beans and semi-processed cocoa products are exempt from tax.

15. Those countries utilizing sales tax systems generally exempt tropical products including cocoa beans and semi-processed items from such charges. In this connexion, the United States has indicated that although sales taxes at the State level vary from 2 to 6 per cent with the most common rate being 3 per cent, food is often exempt. Certain countries operate turnover tax arrangements affecting almost all products.

16. Table II A also indicates that selective taxes are applied in certain instances to cocoa beans, semi-processed cocoa products and chocolate. Cocoa beans, for example, are subject to such taxes in France and Italy and certain semi-processed cocoa products are taxed selectively in France, Italy, Denmark and Norway. Cocoa powder is subject to a commodity tax in Japan.

### Other non-tariff measures

17. Table II A indicates that cocoa beans and semi-processed cocoa products are generally free of quantitative restrictions in developed importing countries, the exception being New Zealand where global quotas are applied to certain items. Table II A also indicates that the United States has a quota arrangement for sweetened chocolate and candy containing cocoa (TSUS 156.30 and 157.10.40). This restriction was introduced as an amendment to the Sugar Act of 1948 in conjunction with programmes designed to stabilize supply of and demand for dairy products.

18. Certain other non-tariff measures have been notified as affecting semi-processed cocoa products and chocolate. In the case of Switzerland, for example, it is indicated in table II A that importers of certain semi-processed items are required to pay taxes imposed on these products into a guarantee fund out of which operating costs of the compulsory stockpiling programme are met. A variable levy is imposed in the EEC on the sugar content of sweetened cocoa powder and chocolate. The information contained in table II A also shows that a levy is applied by Austria and Sweden on certain items falling within BTN 18.06. In addition, a limitation by the EEC on the sugar syrup content of chocolate and other preparations containing cocoa has been notified. A notification has been submitted in connexion with Canadian regulations concerning standards of marking and labelling, in respect of chocolate and other preparations containing cocoa (BTN 18.06). It has also been stated that the United States requires, in respect of item 18.06 (chocolate), details of ingredients used, special labels or packaging, and annual inspections of manufacturing plants.

#### Action in other international organizations

##### FAO

The FAO Intergovernmental Group on Cocoa has, in recent years, confined its activities to those of its Sub-Group on Statistics and its Sub-Group on Cocoa Grading. The statistical group examines and discusses statistical details relating to production and consumption of cocoa, including forecasts, as well as technical details relating to reporting procedures. The Sub-Group on Grading has been concerned with a review of grading legislation in exporting countries and the quality requirements of importing countries with a view to developing a model ordinance on the grading of cocoa beans. The CODEX Committee (of the FAO/WHO CODEX Alimentarius Commission) on Cocoa Products and Chocolate is involved in elaborating international standards for this sector.

##### UNCTAD

An important feature of UNCTAD's work in the commodity field during recent years has been the negotiation of an International Cocoa Agreement (see below). In addition, the UNCTAD has prepared an extensive study on marketing and distribution systems for cocoa. The Trade and Development Board has requested the UNCTAD Secretariat to revise the study in the light of comments which might be received from governments so that the revised document can be considered at the eighth (special) session of the Committee on Commodities.

##### International Cocoa Agreement

The International Cocoa Agreement entered provisionally into force on 30 June 1973. The Agreement provides that it shall remain in operation until the end of the third full quota year after its entry into force. The objectives of

the arrangement are primarily to prevent excessive price fluctuations which adversely affect short-term and long-term interests of both producers and consumers and to promote an orderly marketing of cocoa. The main mechanisms to achieve these objectives consist of a price range, quotas, buffer stocks and the diversion, when desirable, of cocoa to non-traditional uses. Members of the arrangement have, in recent months, been giving consideration to the level of the price range in the light of market developments.