

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

MTN/3F/W/8
3 July 1974

Special Distribution

Multilateral Trade Negotiations

GROUP 3(f) - MARKETING AND DISTRIBUTION SYSTEMS

Note by the Secretariat

1. At its February meeting, Group 3(f) agreed, inter alia, that "as the work proceeds, the secretariat would endeavour to provide information on studies carried out on marketing and distribution systems relating to tropical products to the extent that this is available" (MTN/3F/2, paragraph 12).
2. The secretariat has reviewed the work undertaken on this subject in recent years in other international organizations and in the following paragraphs has reproduced extracts from documentation dealing with cocoa, tea, spices, bananas and certain coconut products. For further details, delegations might wish to refer to the documents indicated in the summaries as well as the reports of the meetings where relevant for which the material had been prepared.
3. It was found that for coffee the information available consisted of studies of individual markets and was mainly related to questions concerning such aspects as promotional and marketing activities in importing countries and production and export arrangements in exporting countries. To the extent that the information reviewed by the secretariat on coffee might be of interest to certain delegations, a bibliography has been attached hereto.

COCOA

4. A study of The Marketing and Distribution System for Cocoa (document TD/B/C.1/132) was submitted to the UNCTAD Committee on Commodities at its session in February/March 1973. The study was required to indicate the proportion of the total income derived by developing countries from exports of cocoa, the effects of the operation of commodity exchanges on price levels and their fluctuations; and the monopolistic or oligopolistic factors, including trans-national corporations, which affect price levels and their impact on developing countries.
5. Four main stages in the marketing and distribution chain were analyzed in the study, namely production and marketing in producing countries, the maritime transport of cocoa, the operation of the terminal markets, and the manufacturing and distribution of cocoa products. For each of these stages, a number of suggestions were made for improvements in the marketing and distribution arrangements, although it was recognized that in some instances further technical studies would seem justified before any firm recommendations could be arrived at.

6. The following is a summary of the main findings and suggestions appearing in Chapter VI of the document. For further details of the study, delegations may refer to TD/B/C.1/132. Certain comments made by governments on the document are reproduced in TD/B/460 and Addenda. At the 13th Session of the Trade and Development Board it was agreed that the study should be revised taking into account comments received from governments and be presented for consideration at the eighth (special) session of the Committee on Commodities.

The marketing and distribution structure

7. About four fifths of the total cocoa crop is exported from producing countries in raw form, the rest being processed locally into cocoa butter and other intermediates, almost entirely for export. Of raw cocoa exports, about one half is marketed through statutory Marketing Boards, over one quarter through private trading enterprises, and rather less than one quarter under the Caisse de stabilisation system.

8. The greater part of the raw cocoa exported is sold on the terminal markets, of which the two major ones are those in London and New York, and is purchased there mainly by manufacturers of chocolate and other cocoa products, though a small proportion is bought by specialist firms of roaster/grinders, who sell cocoa butter and other intermediate products. Manufacturing enterprises in socialist countries buy raw cocoa, through their national foreign trade enterprises, mostly direct from the producing countries, though small quantities are also acquired from dealers or specialist processors.

Marketing in the producing countries

9. Marketing arrangements in the major producing countries have evolved in three main directions: Marketing Board systems with guaranteed producer prices and centralized marketing abroad; Caisses de stabilisation with guaranteed producer prices and regulated export prices; and internal and external marketing by private enterprise with some regulation of export prices. In each case, the arrangement has included extensive attention to cocoa rehabilitation and expansion, financed largely out of levies on cocoa exports. This fact and the high priority accorded to the expansion of the cocoa crop in the national development plans of the major producing countries have contributed significantly to the expansion of world cocoa output during the past 20 years, in spite of the generally unfavourable trend of world prices.

10. The efficiency of external marketing, in a broad sense, can be deduced from a comparison of the unit f.o.b. values realized by the major producing countries. This shows that some countries have succeeded better than others in obtaining higher f.o.b. unit values. It appears that the timing of sales, as influenced by various pressures on the marketing agency, particularly pressures arising from foreign exchange needs, have had something to do with the observed differences.

11. The producing countries at present process about one fifth of their raw cocoa output, and almost all of them have plans to increase the proportion of output processed locally, both as a means of increasing the value added, and as a way of reducing storage and transport problems. This policy, however, encounters internal problems of initial high production costs, and external problems of barriers to the import of processed cocoa into the developed countries.

Shipping

12. Cocoa beans have up to now been a typical liner cargo, and quantities in each shipment have been relatively small compared with the total quantity moved, particularly in countries without a Marketing Board system. The share of the national shipping companies of the exporting countries in the carriage of their cocoa trade at present varies considerably. Freight rates in force in 1971-72 on the major trade routes represented between $3\frac{1}{2}$ and 11 per cent of the c.i.f. import unit value of cocoa beans in the major importing areas.

Manufacturing, marketing and distribution

13. The manufacture and distribution of cocoa products is highly concentrated in a small number of large manufacturing firms in almost all the big consuming countries. Moreover, there has been a progressive reduction of the number of manufacturers through competitive attrition, mergers and outright purchase.

14. One reason for the high degree of concentration in cocoa manufacturing is the complex character of the goods produced, the sophisticated technology employed and the importance of economies of scale.

15. Of the major ingredients used in the manufacture of chocolate products (namely raw cocoa, cocoa butter, sugar, milk and fats and oils), the prices of cocoa beans and cocoa butter have fluctuated more widely than the prices of other products. This fact, and the much lower cost of alternative ingredients, have created a certain incentive towards reducing the cocoa content of chocolate products.

16. In the course of the analysis and discussion of the main links in the existing marketing and distribution chain for cocoa, a number of suggestions for improvement were made, though in some instances it was also suggested that further technical studies would seem justified before any firm recommendations could be arrived at.

Marketing within producing countries

17. (a) Governments should ensure - if they do not already do so - that the prices received by cocoa producers (usually peasant farmers) are kept stable within a given season;

- (b) It would seem desirable that any contribution from cocoa farmers to the financing of economic development should be clearly distinguished from the amounts set aside for cocoa stabilization and rehabilitation purposes;
- (c) Producing countries should consider extending their stockholding capacity, particularly in the main consuming countries;
- (d) The flow of daily information about cocoa market trends to the selling agencies in producing countries should be improved;
- (e) Producing countries should consider reviewing their internal cocoa marketing arrangements with the aim of reducing the cost per ton of cocoa handled;
- (f) Producing countries should explore, with outside assistance where necessary, the technical and economic possibilities of processing a larger proportion of their cocoa output locally, both as a means of increasing internal value added and also possibly as a way of reducing storage and transport costs. Small producers could explore joint processing ventures, where appropriate, within schemes of regional economic integration.

Maritime transport of raw cocoa

- 18. (a) A feasibility study should be considered of the export of raw cocoa from producing countries in larger lots under the contract shipping system;
- (b) Ways and means of improving the arrangements for regular consultation between the conferences and shippers' councils, or equivalent bodies, should be explored and, where appropriate, the possibility of strengthening the bargaining position of exporting enterprises in producing countries vis-à-vis the relevant shipping Conferences should be endorsed.

The terminal markets

- 19. (a) The orderly conduct of operations on the New York and London Cocoa Exchanges could be improved if they conformed to regulations such as those required in the United States by the Commodity Exchange Commission for terminal markets for agricultural products sold mainly in the domestic market;

- (b) The possibility of more direct transactions between the relatively few large enterprises in both producing and consuming countries might be explored, particularly in the light of the experience that would be provided by the new Cocoa Agreement.

Manufacture and marketing of cocoa products

- 20. (a) Governments of consuming countries should consider introducing regulations for cocoa products - where such regulations do not at present exist - to prevent products being sold as "chocolate" if they contain more than a specified percentage of cocoa butter substitutes;
- (b) Governments of consuming countries should also consider reducing or removing tariffs on the import of cocoa products.

TEA

- 21. For the purpose of the Intensive Ad Hoc Consultation on Tea held in June 1974, the FAO secretariat circulated a note on international action for a pricing policy for tea (CCP:TE/CONS 74/3) which includes the following summary of the position of producers in the present marketing system.
- 22. The bulk of tea is sold through auctions. For years there was a dominant view in the industry that on account of highly variable factors - marked variations in quality and output, deterioration in storage on the supply side and the rather specific quality requirements of individual blenders and packers on the demand side - the auction system as a whole offered advantages over alternative marketing methods which justified its retention. However, over the years the organization and structure of the tea market has changed. There has been a gradual reduction of buyers and brokers, this process being most marked in London. It has been argued therefore that this has resulted in monopsony (buying monopoly) market conditions and that auctions do not secure a proper balance of advantage between sellers and buyers.
- 23. In view of the fact that at some auctions excessive offerings have tended to depress prices, there is an opinion in the trade that there should be a limit to the quantity of tea offered to the weekly auction and that some measure of pre-planning is necessary in order to strengthen the existing auction organization and facilities. Therefore, consideration should be given to setting up an intelligence service for the producers on prices and outlook at auctions to enable the gardens and factories to adjust the offering of various types of tea to the actual demand. Further, additional trade channels should be considered - forward contract selling and others - in order to smooth the effective operation of the auction system. Consideration should also be given to the fact that fixed handling charges are applied for tea purchases at auctions which does not stimulate the brokers to attain a bigger turnover and/or better prices.

24. In retail trade, the producer does not exercise sufficient influence on the type of tea eventually sold. The advantages arising from the steady increased sales of tea bags have been in many instances offset by the fact that a lesser volume of tea is required to produce the same cupage than from tea leaves. In recent years tea has been increasingly distributed through supermarkets under highly competitive prices which made it a "loss leader"; thus the trade is not sufficiently stimulated to participate in the active selling of tea. In high income countries where price elasticity of demand for tea is very low, cuts in prices cannot increase sales by themselves. In low income countries intensive efforts to increase tea consumption are offset by high customs duties and internal taxes.

25. Although the fundamental disequilibrium between supply and demand is the main cause of the declining trend in producers' income, marketing systems and methods may also contribute to this development and further analysis should be made to find solutions for removing those elements which have restraining effects on demand and on the return to the producer.

26. In this connexion some lessons may be drawn from the United States experience where, in promotion and marketing to a greater extent than in other countries at the national level, action has been carried out combining research to offer the commodity to the consumer in its most wanted and convenient form, with the use of innovation for creating and developing demand.¹ Most countries have not yet fully adopted this integrated approach. In many countries there is still room for exploring further the possibilities of diversifying the usages of tea.

27. At the Consultation, a request by the Sub-Group of Exporters of the Intergovernmental Group on Tea that a Working Party be established to examine the following issues in depth was unanimously agreed to: (i) a minimum export price arrangement, (ii) co-ordination and regulation of marketing to avoid building up of stocks in importing countries, (iii) intensification of and co-operation in global promotion, (iv) rationalization of marketing so as to achieve the most favourable prices with special reference to the feasibility of expanding auctions in producing countries, and (v) provision for a market intelligence service, designed to provide up-to-date and regular information about market development and future outlook for various types of tea. There was also a consensus in principle that the remaining customs duties, taxes, quantitative restrictions and other barriers to trade in tea should be abolished or gradually reduced.

¹"The growth of the tea market for the last decade has been spearheaded by the acceptance of iced tea. The major product innovations - instant, mixes, cans - have all been related to iced tea. What we must have is a similar breakthrough for consumer ease and convenience in preparation of hot tea. New or different products, brewing equipment, brewing techniques - whatever the answer, we must find it soon." Article by Charles F. Pontin, President, Tea Association of USA, Inc., "World Coffee and Tea", September 1973, page 37.

SPICES

28. An ad hoc Consultation on Pepper was convened by FAO in October 1972 to review the current situation and outlook for pepper in the short and longer term and the marketing structure in some importing countries. Extracts from a note on the structure of pepper markets in the United Kingdom, the F.R. Germany, Netherlands and France, prepared by the Tropical Products Institute, London (CCP:PE72/4) are reproduced in the following paragraphs. The consultation, which focussed on the wide price fluctuations affecting pepper concluded that there was a need to develop reliable information on medium and long-term prospects for production, consumption and trade as an essential prerequisite for further international action. It may also be noted that a Pepper Community was established by India, Indonesia and Malaysia in 1971 with a view to undertaking concerted action for solving problems of the pepper market.

29. An examination of the markets for pepper in the countries reviewed shows that the individual market structures have certain basic characteristics in common. Thus, it is possible to give a simplified description of pepper marketing which would apply to all four countries. Grinders buy pepper from dealers, either direct or through the services of a broker, for processing, packing and onward sale to food manufacturers, wholesalers, retailers and institutional caterers. Grinders may also make some purchases direct from origin (in certain instances this may be done through a broker).

30. Dealers buy pepper on their own account. Their function of selling pepper to grinders is integrated with their speculative activities. It is important, however, to distinguish between trading in physical pepper for actual consumption and trading on a purely speculative basis. The principal dealers in London, Rotterdam and Hamburg are trading on a European basis, not simply on the basis of their own domestic markets. Consumption of pepper in the Netherlands, for example, is less than a thousand tons per annum, yet the physical flow of pepper through the port of Rotterdam is much greater. Contracts for shipment of pepper from origin are usually made on the basis of shipment to London, Rotterdam or Hamburg. The dealer then has the option of directing the vessel to any of these ports. Moreover, pepper is also shipped from one European port to another, according to the situation in the market. This European "transit" trade in pepper is not recorded in the trade statistics since it is only at its final destination that the pepper actually enters the country and is recorded as an import. Whereas dealers trade in pepper on their own account, brokers perform the traditional function of acting as intermediaries between buyer and seller, receiving a commission for their services - normally one per cent from the seller and, in some instances, one half per cent from the buyer. Moreover, whereas dealers are in direct contact with origin, brokers are not normally so; they operate between dealer and dealer, or dealer and grinder. However, in the European trade, the actual operations of brokers are not always so clear cut. Some brokers also deal in pepper on their own account and engage in speculation;

in other words, they also act as dealers as described above. Brokers are normally in constant communication with the main pepper dealers in London, Rotterdam and Hamburg. Some tend to specialise in servicing grinders, while others are more involved with servicing trade between dealers. They provide market intelligence to their customers as well as arranging contracts between buyer and seller and handling the shipping documents.

31. Grinders buy pepper from dealers and carry stocks. Pepper can be stored for long periods without deteriorating. The size of these stocks depends to some extent on the price of pepper and holding costs, but is largely determined by the grinder's turnover. It would appear that most grinders tend to maintain stock levels at around 20 per cent of annual requirements, although the very large grinders may keep up to 30 per cent. There is a tendency to increase stocks when prices are low but, in view of the relatively high value of pepper, the extent to which grinders are able or willing to do this is limited. Thus, the holding of physical stocks by European dealers for speculative purposes, significant as it was in former years, is no longer important.

32. It is difficult to attribute the extent to which dealers' speculation in Europe contributes to price fluctuations. It is generally acknowledged that the main factors leading to price fluctuations in pepper arise on the supply side. The price at which European buyers can obtain supplies of pepper largely depends on two main factors: the size of the world pepper crop, and the activities of traders and dealers both in the producing countries and in Singapore. The view of the market taken by Singapore dealers (and other traders in the countries of origin) will tend to be governed by the expected size of the crop in relation to carry-over stocks from the previous year (given a relatively inelastic demand for pepper in the importing countries) and their subsequent trading activities will reflect the view taken. European dealers take account of these same factors but, additionally, their trading activities have to respond to the influence exerted by the activities of the dealers in Singapore.

33. The following extracts from an ITC study of markets for spices in North America, Western Europe and Japan, published in 1970, is also relevant.

34. The spice trade in most countries is concentrated in the hands of a few importers and spice packers. Agents and brokers play an important role in certain countries and here again only a few dominate the market. It is believed, however, that with the increasing direct contacts of importers and spice packers with suppliers in the producing countries, the role of the brokers/agents is becoming less important in many markets and this trend is reflected in the gradual decline in recent years in the number of brokers/agents operating in the major spice trading centres such as New York and London. The functional differences between direct importers and the agents/brokers are less rigid than before and many agents/brokers trade on their own account besides operating as intermediaries. There are other instances of combined functions: some importers are also grinders and wholesalers; some grinders are food processors; and some food chains make their own importing arrangements and have their own grinding operations.

35. In distribution a similar concentration of activities is evident. In all the countries studied, the vertically integrated organizations (combining wholesale and retail functions) have increased their share of retail food sales at the expense of independent, unaffiliated wholesalers and retailers.

36. Except Italy, with a strong preference for Tellichery black pepper, there is no discernible preference for spice of any particular origin. Price and quality are the main factors determining the choice of a supply source.

As regards exporting processed spices, exporters face such problems as:

- (i) competition from well established local spice processing firms;
- (ii) the protective import tariffs, and
- (iii) the fear that processors in the producing countries may not supply high quality processed spices, free from bacterial and fungal contamination, and extraneous substances.

Furthermore, the requirements of industrial users are not large and are spread over the year. For example, a meat packer producing about 10,000 metric tons of meat products needs only about 55 metric tons of over 15 different spices per year. Consequently the users would prefer to get their supplies from a known and reliable local processor who not only offers the entire range of spices but also manufactures, if required, special blends for exclusive use in their products. In the Federal Republic of Germany, the Netherlands and France, many spice packers offer over 100 types of spice mixtures for use in sausage production. With regard to marketing, two Indian packers are well established in the United Kingdom. It is suggested that it may be necessary to set up processing and packing facilities in the consuming countries themselves. However, enquiries showed that there is some scope for exporting ground nutmeg, turmeric and chillies and curry powder in bulk. There is also some scope for expanding the demand for spice oils and oleoresins, particularly nutmeg oil, celery seed oil, pepper oleoresin, clove oil, cinnamon oil and cardamom oil. If prices are competitive and qualities conform to specifications, "flavour houses" would be interested in importing these spice oils and oleoresins.

37. International standards exist for black pepper, white pepper, cardamom, ginger, chillies and pimento. Some progress has been made in prescribing standards for curry powder, paprika, caraway seed, cinnamon, cloves, coriander and turmeric. But the trade in spices at present is carried out mainly on the basis of conventional grade designations. These grades, evolved over a long period of trading, convey only certain quality connotations which are often not well defined. For less important spices, business is transacted on the basis of samples. The American Spice Trade Association has, however, specific standards for spices conforming to the specifications of the Food and Drug Administration. In the United Kingdom and Common Market countries, draft standards have been agreed for some of the major spices.

BANANAS

38. Recent work of the FAO Intergovernmental Group on Bananas has included certain aspects relevant to the marketing and distribution of bananas, including the economic aspects of production, trade and distribution of bananas, ocean transportation, and the outlook for imports of bananas into the USSR, Eastern Europe and Yugoslavia. The following paragraphs contain extracts from FAO documentation relating to these matters.

39. Document CCP:BA73/5 dated April, 1973 contains a review of the economic aspects of production, trade and distribution of bananas. The following points relating to marketing and distribution have been extracted from that document.

40. A high degree of integration is essential in the marketing of a perishable commodity, such as bananas, grown in the tropics and transported over long distances to temperate zone importing countries. In this operation, the exporter plays the co-ordinating role. In Central America and the Philippines the bulk of export marketing is carried out by the national affiliates of the multinational companies (which market their own and associate producer fruit), in the French Antilles by producer/exporter syndicates, and in Jamaica and Somalia by National Banana Boards. In Ecuador more than 40 exporters operate but over 97 per cent of exports are handled by five firms, three of which are Ecuadorian. In Colombia also national producer/exporter groups play a major role.

41. Purchase conditions vary. In Central America and Colombia growers are paid on an f.o.b. basis, the level of payment usually being linked to the range of services provided by the export company. In Ecuador the exporters buy from producers directly or through intermediaries on the basis of minimum shipside prices fixed by government decree. The Jamaican Banana Board pays a guaranteed minimum price to growers for fruit delivered packing shed and owns the fruit until it is sold to ripeners in the United Kingdom.

42. In the French Antilles, the export syndicates market the bananas on a consignment basis and the fruit remains the property of the grower until point of sale f.o.r. French port. The grower's final payment, therefore, is f.o.r. selling price minus all distribution costs and exporter/importers' commission. The Somali National Banana Board purchases on an f.o.b. basis. Profits are allocated equally between growers and the Board. Although it is not officially stated, it is assumed that the f.o.b. price fixed by the Board could include a government subsidy if net returns after sale in Italy involve an operating loss. The various Philippine producer/exporters sell either f.o.b. basis or cost and freight Japan according to their contractual arrangements with Japanese import groups.

Organization and distribution of imports

43. As far as internal distribution is concerned, most of the trends evident in the previous study have been reinforced. Apart from the United States, where the Anti-Trust laws prevent importers from owning ripening facilities, there is evidence of further integration along the distribution chain. Similarly, brand marking of bananas, originally introduced by United Fruit with the Chiquita label, is now almost universal. Finally, although small independent retailers and open markets are still important, particularly in Belgium, France and the United Kingdom, the share of supermarkets and chain stores in the retail sales of bananas continues to increase. The most obvious example is Switzerland where two co-operatives import, ripen and retail some 75 per cent of all bananas sold in the country.

Formulation of retail price

44. In general, retail gross margins account for 30 to 35 per cent of the retail price and ripeners' margins for about 10 to 20 per cent. Exporters/importers' margins together account for 2 to 10 per cent of the retail price (averaging about 5 per cent). Import duties account for 5 to 6 per cent of the retail price in Italy and Belgium, 8 per cent in the Netherlands, and 14 to 15 per cent in Japan and Switzerland. The consumption tax accounts for a further 30 per cent of the retail price in Italy. Ocean freight averages about 10 to 15 per cent of the retail price.

45. If the estimate of f.o.b. return can be taken as a broad indication, the percentage of retail price accruing to the exporting country amounts to about 24 to 30 per cent of the retail price in France, the Federal Republic of Germany, the Netherlands, the United Kingdom, the United States, New Zealand and Switzerland, and 15 to 20 per cent in Belgium, Japan (Ecuador) and Italy (Central and South America). Estimated return to grower as a percentage of retail price ranges from 5 to 14 per cent; it is highest in France (Guadeloupe/Martinique), New Zealand (Pacific Islands) and the United Kingdom, and lowest in Italy (Ecuador/Central America), Japan (Ecuador) and Belgium.

46. Import policies and outlook for imports of bananas into the USSR, Eastern Europe and Yugoslavia are dealt with in CCF:BA/CONS 74/4 dated April 1974 which was prepared as background information for the Intensive Ad Hoc Consultations on Bananas held in Rome during May 1974.

47. Undoubtedly an area which in quantitative terms offers very considerable potential for expansion of banana consumption is the centrally planned economy group of countries - Yugoslavia, Eastern Europe and the USSR. Since per caput consumption of bananas in traditional importing areas has shown a tendency to level out, this area has naturally become a focus of attention for exporting countries. Five countries were visited in March 1974 (those whose imports have

shown the fastest growth rate), viz Yugoslavia, Hungary, Czechoslovakia, Poland and the German Democratic Republic; in addition, material has been assembled on Bulgaria, Romania and the USSR.

48. The centrally planned economy countries all operate on the basis of medium term plans which set the framework for their economic development, and the annual plan which is the effective operating instrument. In general, foreign exchange allocations for non-essential imports are broadly linked to the ability of the foreign trade organizations to offset expenditure on imports by compensatory exports, whether such exchange occurs in convertible currency, against clearing account, or parallel trade agreements. However, this principle is flexible and account is taken of the need and expressed obligation to increase trade with developing countries and also of internal demand.

49. In the five countries visited, there has been a considerable degree of liberalization in trade as far as bananas are concerned. This is clearly linked to the favourable economic growth of the five, which has enabled more consideration to be given in development plans to consumer goods. In the German Democratic Republic, Yugoslavia and Czechoslovakia, bananas are no longer a marginal fruit. Per caput consumption is almost 6 kg in the German Democratic Republic, and 3 kg in the other two. In these countries bananas are popular and consumers expect them to be available. Indications are that the same situation is developing in Hungary (despite the fact that this country, as also Yugoslavia, is a very large producer, consumer and exporter of temperate fruits) and that Bulgaria is beginning to move forward. Imports have not increased significantly in the USSR but the recent poor grain harvests have undoubtedly been a factor in this lag. It seems reasonable to assume that the favourable factors influencing expanded banana imports in the other CMEA countries will also come to bear in the USSR and Romania.

50. Provision of credit is often an important factor in trade development and for this reason the more industrialized countries of the group have been the biggest importers, no doubt because they can offer industrial goods to the banana exporting countries on favourable credit terms and are in a position to provide development aid.

51. The necessity to pay ocean freight in convertible currencies is a major problem, particularly in the present situation with freight rates rising meteorically. In this situation, the USSR and the German Democratic Republic are in a favoured position in view of their reefer fleets.

52. Probably the largest single barrier to increased expansion of banana imports into this area is the lack of the necessary infrastructure and skilled personnel to transport, handle and above all ripen bananas on a large scale in all weather conditions. The geographical position of some of the countries aggravates this problem which is particularly serious as far as Cavendish variety bananas are

concerned. However, Yugoslavia, the German Democratic Republic, Czechoslovakia and Hungary are planning to install modern ripening facilities. Poland also is giving serious attention to the problem and has in fact already sent technical personnel abroad for training. Exporting countries should consider the provision of technical training and assistance etc. as an integral part of their selling effort and consideration might even be given to joint venture operations. Unfortunately, they themselves often lack direct experience in handling bananas at the import end, and in ripening in particular, but the integrated nature of the banana industry and the links between traditional export/import companies do enable this assistance to be provided.

COCONUT PRODUCTS

53. In co-operation with the ECAGE and the Asian Coconut Community, the ITC in 1973, under the UNDP regional assistance programme for Asia, published a survey entitled "Market development of coconut products". This survey, covering eight markets (United States, USSR, Japan, France, Federal Republic of Germany, Italy, Netherlands, United Kingdom), analyses the markets for edible coconut oil, desiccated coconut and copra cake and meal, non-edible coconut oil and coconut shell charcoal, and examines the market prospects for coconut products and formulates recommendations for market development and promotional strategy. Extracts from the summary of the findings are reproduced below.

Market analysis

(i) Market situation

54. The market for coconut products in the eight countries surveyed has remained static for the last ten years, with the significant exceptions of copra cake and meal and of shell charcoal. The latter, however, represents a very small market. Within the total market, the major sector by value, that of coconut oil, has shown a long-term shift from inedible to edible uses, in spite of the apparently greater price elasticity of the latter. The explanation is that, in general, coconut oil has moved into increasingly specialized markets within the edible sector, and these are, by and large, areas where rapid growth is occurring in the end-uses.

55. The patterns of consumption vary considerably by country: edible use of coconut oil is relatively small in the United Kingdom where palm kernel oil meets most of the demand for edible lauric oils; inedible uses are virtually non-existent in the USSR, low in Italy, and relatively (in per capita terms) very high in the Federal Republic of Germany; desiccated coconut is unavailable or

negligible in Italy, Japan and the USSR, and has lower per capita use in France and the Federal Republic of Germany than in the other three markets; copra cake and meal is solely a by-product market except in the Federal Republic of Germany and the Netherlands, which are both significant importers; shell charcoal is not used in Italy, Netherlands or USSR, but Japan has rapidly become the major user, with a static pattern elsewhere.

56. In most markets, edible oil is used for a variety of specialized purposes in bakery, confectionery and dairy substitute markets, as well as margarine - still the main single use - and general shortenings: the traditional margarine use is still, however, declining in most countries. Non-edible oil is chiefly used in soap and detergents, both areas now showing growth in usage, and to a lesser extent in cosmetics/toiletries (growing), plastics (declining) and a wide variety of other industries. Desiccated coconut is chiefly used in the bakery and confectionery industries, with limited use in other processed foods and home cooking. Copra cake is used in cattle feeds, chiefly for dairy cattle. Shell charcoal is used mostly for gas phase extraction.

(ii) Distribution channels

57. Coconut products are traded chiefly through brokers, and to a great extent through the London market, in spite of the importance of the United States of America as a consuming country. The importers, who are the main crushers, processors, etc., are relatively few in number, except for desiccated coconut which has a very diffuse pattern of distribution. In no country surveyed are there more than two major copra crushers: significant refiners of oil for edible purposes are two or three in most markets, though rather more in the United States: the soap and detergent industry has only half-a-dozen major companies world-wide including four multinationals: major producers of natural fatty acids and alcohols number one or two only, everywhere, except in the United States. Shell charcoal has at most three activating firms in any one user country, and the major feed compounders using copra cake are relatively few except in the Federal Republic of Germany.

58. End-user markets are much more diffuse, although in most countries a few large companies appear to provide the key to coconut product usage. This seems particularly true of the United Kingdom and, to a lesser extent, the Netherlands.

(iii) Factors affecting trade

59. Price is a major factor affecting trade. Coconut oil is relatively expensive, and prices tend to fluctuate violently, partly because of speculation. Fluctuations appear to be the major influence in putting off buyers, though price differentials vis-à-vis other oils are also important, while synthetics used for technical purposes have gained ground largely on a relative price basis. An important element in prices is uncertainty about supplies and the state of production. Assured supplies, especially in Europe and Japan, are a critical factor.

60. Transport problems, both in terms of freight rates and structures and the availability and reliability of shipping, are a significant factor in some buyers' attitudes to coconut products. This applies especially to the minor products, desiccated coconut and shell charcoal.

61. Quality is not explicitly a problem in general, though both desiccated and shell charcoal have been criticised, and the aflatoxin problem clearly arises from over-moist and poorly stored copra. However, the fact that Sri Lanka's grading system - the only effective major scheme operating - enables both oil and copra to command a price premium over other origins is significant.

62. Coconut oil is vulnerable to substitution, both economic and technical, for most edible and inedible uses. However, its special qualities enable it to retain a distinct advantage in any field where product quality is considered an important variable in consumer preference. Much of the existing substitution is encouraged as much by price fluctuation as by relative prices. A significant fact in the substitution pattern is that, while edible end-uses may be regained by coconut oil if prices or availability improve, no end-uses in the non-edible sector, once lost to synthetics, have ever yet been regained.

63. In putting forward suggestions relating to a market strategy for account products, reference was made, inter alia, to the importance of stable prices for these items and the need for changes in the tariff structure which would enable the broader penetration of developed country markets.

ANNEX

Publications Relating to Coffee

A series of country studies made by the International Coffee Organization in 1967 mainly concern marketing control arrangements and policies of a number of coffee exporting countries.

"World Coffee Survey" published by FAO in 1968, contains information relating to production and marketing systems etc. supplied by some 70 coffee producing countries.

"Marketing in Europe", a monthly publication by the Economic Intelligence Unit (Europe) S.A. contains reports on coffee and tea in France, Belgium and F.R. Germany in its issues of October 1971, July 1972 and April 1973. "Retail Business", a monthly publication by the Economic Intelligence Unit Limited (UK) also contains a report on the UK coffee market in its issue of March 1972. These reports include information on consumption, manufacturers (roasted and instant coffee) and brands, importers and distributors, packaging, retail prices etc.

The results of the studies made by the International Trade Centre UNCTAD/GATT on the major world markets for soluble coffee were made available in two publications:

- Twenty-one European markets for industrial coffee, 1969, and
- The market for soluble coffee in Canada and Japan, 1970.

A survey made by the ITC in 1971/72 on the export possibilities for freeze-dried coffee contains consumption forecasts for certain markets and recommendations for the export marketing policy and the investment decision to be taken by the exporting country requesting the survey.