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NEGOTIATIONS
THE URUGUAY ROUND

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Negotiating Group on Tropical Products

TROPICAL PRODUCTS: BACKGROUND MATERIAL FOR NEGOTIATIONS

Tropical Beverage Items (Coffee, Tea and Cocoa)

Draft Note by the Secretariat

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[1] To be issued as an Addendum to this document.

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Introduction

1. At the first meeting of the Negotiating Group on Tropical Products held on 26 February 1987, there was general agreement that the work in the initial phase should start on the basis of the seven product groups selected for the purpose of the consultations on tropical products held in the Committee on Trade and Development in 1982-84, in the understanding that this would not constitute a definition of tropical products nor an exhaustive listing and that other products might be included as negotiations proceed. As a first step in compiling background material for negotiations the Group agreed that the secretariat should be invited to update and revise the background documentation prepared for the 1982-84 consultations, including as appropriate data on the new Harmonized System of tariffs, so as to provide the Group with a summary of current trade flows and the tariff and non-tariff measures relating to the seven individual product groups covered by the consultations.

2. This document provides background material for negotiations with respect to one of the seven product groups covered by the 1982-84 consultations - tropical beverage items, i.e. coffee, tea and cocoa in unprocessed and processed forms. This document covers the eleven developed country markets as in the background documentation prepared for the consultations. As far as tropical beverage items are concerned, any additional information that the Group might wish to have included as background material will be circulated as addenda to this document.

3. Section I includes tables which show the current tariff situation according to the new Harmonized System classifications. This section also includes an overview of the tariff and non-tariff measure situation and an overview of trade flows. Section II provides more detailed information on non-tariff measures and Section III documents the activities of other international organizations relevant to this product group.

4. With respect to the eleven markets referred to above, the annex to this document provides tariff and trade flow data extracted from the 1984 Tariff Study files. These data are presented according to tariff classifications used before the adoption of the Harmonized System. With respect to pre-HS tariff items covered by the Annex, the secretariat has added corresponding new HS-based tariff item numbers and tariff rates on a provisional basis. It is expected that these data will help identify broadly, if not precisely, major suppliers and the amount of trade involved with respect to new HS-based tariff items.[1]

SECTION I: A summary of the commercial policy situation and trade flows

5. Tables 1, 2 and 3 show the current commercial policy situation of eleven developed country markets with respect to coffee, tea and cocoa, respectively. The MFN rates indicated in these tables are new rates based on the Harmonized System, which will take effect on 1 January 1988. The GSP rates are the latest available ones. These tables include indications of such non-tariff barriers as quantitative restrictions and selective internal taxes. Reference may be made to Section II for details of these measures and information on other notified non-tariff measures.

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[1] A number of participants in the Uruguay Round including developed countries will adopt new tariff schedules based on the Harmonized System effective 1 January 1988. The United States and Canada will adopt an internationally standardized tariff nomenclature for the first time. However, it may be noted that import data according to HS-based tariff items will not be available before 1989 or 1990. Thus, there is no other choice but to use the latest available import data for 1984, which are presented in the Annex according to pre-HS tariff classifications, i.e. CCCN, TSUS or CTS.

Table 1

Current Commercial Policy Situation - Coffee and Processed Coffee

Sweden 0% (all items)

H.S. Code No.	Harmonized commodity description		United States	Canada	Japan	EEC	Austria	Finland	Norway	Switzerland	Australia	New Zealand
0901.11	Coffee, not roasted: not decaffeinated	MFN	0%B	0%B	0%B	5%B	12%B	3.8%B	0%B	Sw F 0.50/ kg.B	2%U	0%B
		GSP				4.5%*	0%	-		-	0%	
		NTM			TX	TX						
0901.12	decaffeinated	MFN	0%B	0%B	0%B	13%B	12%B	3.8%B	0%B	Sw F 0.76/ kg.B	2%U	0%B
		GSP				8.5%*	0%	-		Sw F 0.63/ kg.[6]	0%	
		NTM			TX	TX						
0901.21	Coffee, roasted: not decaffeinated	MFN	0%B	4.41¢/ kg.B	20%B	15%B	15%B 19.5%B[4]	16%B	NOK 0.50/ kg.B	Sw F 0.90/ kg.B	2%U	25%B
		GSP		0%	-	11.5%*	12% 15.6%[4]	-	0%	Sw F 0.63/ kg.[6]	0%	10%
		NTM			TX	TX						*7]
0901.22	Decaffeinated	MFN	0%B	4.41¢/ kg.B	20%B	18%B	15%B 19.5%B[4]	16%B	NOK 0.50/ kg.B	Sw F 0.90/ kg.B	2%U	25%B
		GSP		0%	-	12.5%*	12% 15.6%[4]	-	0%	Sw F 0.63/ kg.[6]	0%	
		NTM			TX	TX						*7]
ex2101.10 (CCCN ex2102)	Extracts, essences and concentrates of coffee	MFN	0%P[1]	15.43¢/ kg.B	2]	18%B	12%B 15.6%B[5]	9%B* 0%A*	NOK 0.20/ kg.B	Sw F 2.60/ kg.B	7.5%B 5%A	35%B
		GSP		0%	2]	9%[3]	6% 13%[5]		0%	Sw F 1.70/ kg.	2.5%	25%
		NTM			TX	TX						*7]
ex2101.10 (CCCN ex2102)	Preparations with a basis of these extracts, essences and concentrates or with a basis of coffee	MFN	10%B	15.43¢/ kg.B	2]	18%B	$24.5/ kg.U (16.8%)	9%B* 0%A*	15%B	Sw F 2.60/ kg.B	7.5%B 5%A	35%B
		GSP	0%	0%	2]	-	$12/kg. (8.2%)		0%	Sw F 1.70/ kg.	2.5%	25%
		NTM				TX						

Footnotes to Table 1

[1]Duty-free treatment has not been bound for soluble or instant coffee, containing no mixture.

[2] (a) Extracts, essences and concentrates of coffee and preparations with a basis of these extracts, essences and concentrates:
- (1) with added sugar - 30%B, 24%A, GSP 15%*;
- (2) Other:
  - (a) instant coffee 17.5%B, 14%A*,
  - (b) Other - 25%B, 16%A*, GSP 0%*

(b) Preparations with a basis of coffee:
- (1) with added sugar
  - (a) with sugar less than one-half in weight:
    - (i) with sugar being the most important ingredient - 35%B, 28%A
    - (ii) Other - 35%U
  - (b) Other - 35%B
- (2) Other - 25%U, 8%A, GSP 6%.

[3]Within a Community tariff quota of 19,200 tonnes for soluble coffee in 1987 (see EC Official Journal L373, page 130 for details). Different rates apply to GSP imports into Portugal and Spain. There is no quota limitation for GSP imports of essences and concentrates of coffee.

[4]In immediate packings of a content of 5 kg. or less

[5]Solid coffee extracts in immediate packings with a content of 1 kg. or less; liquid coffee extracts, essences and concentrates - 32%, minimum S 3/kg.

[6]These GSP rates are not applicable to Brazil.

[7]Global quotas were replaced by automatic licensing on 1 July 1986. This requirement was terminated on 1 July 1987, (L/5640/Add.18/Supp.1).

Table 2

Current Commercial Policy Situation - Tea and Processed Tea

Finland and Sweden 0%B (all items)

H.S. Code No.	Harmonized commodity description		United States	Canada	Japan	EEC	Austria	Norway	Switzerland	Australia	New Zealand
0902.40	Black tea (fermented) and partly fermented tea in immediate packings of a content exceeding 3kg.	MFN	0%B	13.23¢/ kg.B 0%A	35%U[1] 5%A	0%B	0%B	0%B	0%B	0%B	0%B
		GSP			2.5%						
		NTM				TX					
0902.30	Black tea (fermented) and other partly fermented tea in immediate packings of a content not exceeding 3kg.	MFN	0%B	13.23¢/ kg.B 0%A	20%B	5%B	10%B	0%B	0%B	0%B	10%B[3]
		GSP			14%	0%	0%				
		NTM				TX					GQ
2101.20 (CCCN) ex2102)	Extracts, essences and concentrates of tea	MFN	0%B	13.23¢/ kg.B 0%A	2]	12%B	24%B	0%B	Sw F 2.70/ kg.B	2%U	25%B 20%A
		GSP			2]	0%	0%		0%	0%	15%
		NTM				TX					
	Preparations with a basis of these extracts, essences or concentrates or with a basis of tea	MFN	10%B	13.23¢/ kg.B 0%A	2]	12%B	24%B	15%B	Sw F 2.70/ kg.B	2%U	25%B 20%A
		GSP	0%		2]	0%	0%	0%	0%	0%	15%
		NTM				TX					

[1] Waste, unfit for beverage 0%; other than black tea 20%B.

[2] (a) Extracts, essences and concentrates, and preparations with a basis of these extracts, essences or concentrates
(1) instant tea - 20%B, 16%A*, GSP 8%
(2) other - 16%B, 12.8%A*, GSP 8%*
(b) Preparations with a basis of tea
(1) with added sugar - 35%P
(2) other - 25%U, 8%A*, GSP 6%*.

[3] In packages of 2.26 kg. net weight or less.

Table 3

Current Commercial Policy Situation - Cocoa and Cocoa Products

H.S. Code No.	Harmonized commodity description		United States	Canada	Japan	EEC	Austria	Finland-	Norway	Sweden	Switzerland	Australia	New Zealand
1801. 00	Cocoa beans, whole or broken, raw or roasted	MFN	0%B	0%B	0%B	3%B	raw 4%B other 6%B	raw 0%B other 5%B	0%B	0%B	0%B	2%U	0%B
		GSP					0%	0%				0%	
		NTM				TX							
1802. 00	Cocoa shells, husks, skins and other cocoa waste	MFN	0%B	0%B	0%B	3%B	$1.25/ kg.U	0%B	0%B	0%B	Sw F 0.01/ kg.U	2%U	0%B
		GSP					0%					0%	
		NTM											
1803. 10	Cocoa paste, whether or not defatted: - not defatted	MFN	0%B	0%B	10%B	15%B	15%B	3.8%B 0%A	0%B	0%B	Sw F 0.40/ kg.B	0%B	30%U
		GSP			5%	11%	0%				0%		15%
		NTM				TX			TX				GQ
1803. 20	- wholly or partly defatted	MFN	0.82¢/ kg.B	0%B	20%U	15%B	15%B	3.8%B 0%A	0%B	0%B	Sw F 0.40/ kg.B	0%B	30%U
		GSP	0%		10%	11%	0%				0%		15%
		NTM				TX			TX				GQ
1804. 00	Cocoa butter, fat and oil	MFN	0%B	0%B	2.5%B	12%B	5%B	2%B 0%A	0%B	SEK 0.1/ kg.B	Sw F 0.025/ kg.B	0%B	0%B
		GSP			0%	8%*1	0%			0%	0%		
		NTM				TX			TX				
1805. 00	Cocoa powder not containing added sugar or other sweetening matter	MFN	0.82¢/ kg.B	10%B	21.5%B	16%B	27%B	10%B 0%A	NOK 0.40/ kg.B	SEK 0.1/ kg.B	Sw F 0.28/ kg.B	0%B	30%B
		GSP	0%	5%	15%	9%	7%		0%	0%	Sw F 0.14/ kg. 2]		15%
		NTM			TX	TX							*

[1] EEC quota limitation on GSP application was removed in 1987

[2] Contributions to a fund for compulsory reserves (see Section II).

6. The following symbols are used in Tables 1-3:

*	=	recent trade liberalization measure
B	=	MFN rate fully bound
P	=	MFN rate partially bound
U	=	MFN rate not bound
A	=	MFN rate applied actually on a temporary basis or otherwise
GQ	=	global quota
TX	=	selective internal tax

A. Coffee and processed coffee

(1) An overview of the tariff and non-tariff situation

7. With respect to all coffee and processed coffee items, the United States, Canada, Norway and Sweden provide developing countries duty-free treatment on an MFN basis or under the GSP.[1] With respect to unroasted coffee, Japan, Austria and New Zealand provide developing countries duty-free treatment, but they maintain tariffs on processed coffee. The EEC, Finland and Switzerland maintain duties on raw coffee for revenue purposes or for certain other reasons. These countries and markets also apply higher tariffs on processed coffee for the protection of their processing industries. Australia maintains duties only on coffee extracts and preparations.

8. Portugal and Spain have been members of the EEC since 1986. As a result, these countries are aligning, step-by-step, their MFN duties to the EEC common external duties. Thus, these countries' MFN duties on coffee and processed coffee are being reduced except for some cases where their duty rates were the same as EEC rates or lower than EEC rates. Portugal's

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[1]The expression "provide developing countries duty-free treatment" is used throughout this section to provide a succinct picture of the tariff situation affecting exports from developing countries. Details of such treatment, i.e. whether "duty-free" is on an MFN basis or under the GSP, are shown in Tables 1-3.

duty on decaffeinated unroasted coffee is being increased. These two countries have also adopted the EEC's GSP scheme and special preferences with certain transitional arrangements.

9. The EEC, under its GSP scheme for 1987, has reduced its duties on unroasted and roasted coffee by 0.5 percentage point. Finland has suspended the application of its bound duties on coffee extracts and preparations. In adopting the Harmonized System, Australia will eliminate its duties on "coffee other than that imported under by-law".

10. New Zealand removed global quotas on roasted coffee and coffee extracts on 1 July 1986 and terminated automatic licensing requirements for these products on 1 July 1987. As far as eleven developed country markets are concerned, quantitative restrictions no longer remain on coffee and processed coffee.

11. The remaining major non-tariff measures are selective internal taxes maintained by Belgium/Luxembourg, Denmark, F.R. Germany, Italy and Japan. In early 1987 the Japanese Government submitted to the Diet, a tax reform Bill. This Bill proposed to eliminate Japan's 5 per cent commodity tax on non-alcoholic beverage items including coffee. Reference may be made to Section II for details of selective internal taxes and information on certain other notified non-tariff measures.

(2) An overview of the trade flow situation

12. Table 4 shows that net imports of coffee by importing members of the International Coffee Agreement increased moderately in the period 1981-1985 due mainly to increasing imports by the United States and Japan. Imports into other markets stagnated. According to the FAO Trade Yearbook, the developed countries were responsible for 91 per cent of world coffee imports by quantity in 1985. The EEC (12) was the largest market, accounting for 42 per cent[1] of world imports, followed by the United States - 27 per cent, other Western European countries - 7 per cent, Eastern European countries - 6 per cent, Japan 5 per cent, and Canada, Australia, New Zealand and South Africa - 4 per cent. The developing countries were

[1] Of which about 4 per cent is intra-EEC trade

Table 4

Net Imports of Coffee by Importing Members of the International Coffee Agreement ('000 bags)

	1981	1982	1983	1984	1985	1986
Total	54,140	54,751	55,652	55,767	57,197	
United States	16,616	17.565	16,855	17,952	19,016	19,357
EEC	25,694	26,031	26,789	25,642	26,469	
Belgium/Luxembourg	1,403	1,341	1,295	1,322	1,311	
Denmark	1,015	955	953	929	929	924
France	5,271	5,340	5,438	5,130	5,156	5,094
Germany, F.R. of	7,403	7,543	7,464	7,073	7,057	7,465[1]
Greece	427	432	461	495	490	
Ireland	63	58	68	87	94	97
Italy	3,753	4,091	4,114	3,692	4,696	4,168
Netherlands	2,182	2,126	2,290	2,271	2,296	
Portugal	222	242	294	324	361	
Spain	1,513	1,639	2,186	1,852	1,768	2,172[1]
United Kingdom	2,443	2,263	2,226	2,466	2,309	2,251[1]
Other Importing Members	11,830	11,155	12,008	12,174	11,711	
Australia	623	615	612	597	575	
Austria	872	1,027	1,131	932	925	1,023[1]
Canada	1,977	1,763	1,739	1,828	1,842	1,881[1]
Cyprus	31	28	71	-9	32	
Fiji	4	2	2	2	1	1[1]
Finland	1,001	1,037	1,036	1,142	873	968
Japan	3,320	3,545	3,848	4,180	4,284	4,515[1]
New Zealand	109	103	120	108	105	104
Norway	717	720	749	737	714	723
Singapore	-47	-313	-113	99	-155	-159
Sweden	1,755	1,654	1,627	1,577	1,568	
Switzerland	715	577	612	639	722	702
Yugoslavia	754	397	574	341	225	897

[1] Includes estimates provided by the Member

Source: International Coffee Organization document 2804/87.

responsible for 9 per cent of world imports. A large number of developing countries import coffee: in descending order of market size, these are Algeria, Argentina, Singapore, Yugoslavia, Saudi Arabia, China, Morocco, Israel, Republic of Korea and Cuba.

13. The tariff-related trade flow data in the Annex show the following trade flow situations:

(i) all the markets under study have imported raw coffee primarily from coffee-producing countries;

(ii) imports of such processed coffees as roasted coffee and instant coffee are relatively small in the markets maintaining tariff escalation on these products;

(iii) in non-EEC European countries, the principal supplier of processed coffees was the EEC in most cases or Switzerland in some cases in 1984. These suppliers have enjoyed free-trade arrangements in Western Europe on coffee extracts in some non-EEC European countries which maintain m.f.n. duties on the item. The principal supplier of processed coffees to Canada was the United States. It appears that the proximity to large markets is among the factors which have influenced the direction of trade flows to these relatively small markets;

(iv) For the EEC (excluding Portugal and Spain), Brazil and Colombia were the first and second suppliers of raw coffee in 1984. Other major suppliers included Côte d'Ivoire and Uganda. The share of special preferential suppliers in the EEC's imports increased from 38 per cent in 1980 to 41 per cent in 1984. Brazil was the principal supplier of coffee extracts. Other major suppliers included Côte d'Ivoire, Colombia and Switzerland. Special preferential suppliers increased their share in the EEC market for coffee extracts from 7 per cent in 1980 to 19 per cent in 1984. For the EEC,

Switzerland was the principal supplier of roasted coffee (both regular and decaffeinated) among MFN and GSP sources. Table 5 shows EEC imports of coffee and processed coffee in 1980 and 1984 according to major tariff treatments.

(v) for Japan the principal supplier of roasted coffee was the EEC. Japan is a sizeable market for instant coffee. Major suppliers of instant coffee to this market included the EEC, Colombia, Brazil and the United States. As far as other coffee extracts and concentrates are concerned, Brazil, which has enjoyed GSP treatment, was the only supplier in 1984.

B. Tea (black tea) and processed tea

(1) An overview of the tariff and non-tariff measure situation

14. With respect to tea in bulk and packed tea, all the markets under study except Japan and New Zealand have granted developing countries duty-free treatment on an MFN basis or under the GSP. Canada's MFN duty-free treatment has not yet been bound. Japan applies to developing countries GSP rates of 2.5 per cent, 14 per cent and 8 per cent on bulk tea, packed tea and tea extracts, respectively. Japan is a significant producer of green tea, but depends entirely on imports for the supply of black tea in unprocessed form. For the protection of its processing industries New Zealand maintains a bound MFN rate of 10 per cent on tea in packages of 2.26 kg. net weight or less and a GSP rate of 15 per cent on tea extracts and preparations.

15. Japan reduced MFN and GSP rates on tea extracts and tea preparations by 20 per cent (e.g. from 10 per cent ad valorem to 8 per cent ad valorem under GSP) in 1986.

16. New Zealand maintains global quotas on tea in packages under 2 kgs. Denmark, F.R. Germany and France maintain selective internal taxes on tea. Reference may be made to Section II for details of these taxes and information on certain other notified non-tariff measures.

Table 5

EEC's Imports of Coffee and Processed Coffee According to Major Tariff Treatments

(Unit: US$'000)

Coffee	1980				1984			
	Total	MFN sources	GSP sources	Special pref.	Total	MFN sources	GSP sources	Special pref.
Raw	4,842,888 (100%)	2,982,374 (62%)		1,860,514 (38%)	3,808,236 (100%)	2,247,615 (59%)		1,560,621 (41%)
Decaf.	17,070 (100%)	85 (0.5%)	13,341 (78%)	3,644 (21%)	1,469[1] (100%)	258 (18%)	279 (20%)	480 (33%)
Roasted	12,476 (100%)	1,662 (13%)	2,246 (18%)	8,345 (67%)	9,497 (100%)	3,008 (32%)	636 (7%)	5,457 (57%)
Roasted decaf.	151 (100%)	69 (46%)	47 (31%)	35 (23%)	109 (100%)	99 (91%)	8 (7%)	2 (2%)
Extracts	165,643 (100%)	1,496 (1%)	151,867 (92%)	12,280 (7%)	124,707 (100%)	2,873 (2%)	97,855 (78%)	23,978 (19%)

[1] Including unspecified sources 452 (31%).

Source: COM.TD/W/328/Add.2 and Annex to this document

(2) An overview of the trade flow situation

17. Table 6 indicates net imports of tea (or approximately tea consumption) in 1980-84 and in 1985 (preliminary). World net imports of tea increased by 11 per cent by quantity between 1980 and 1984 owing to a rising demand for tea by developing countries; tea imports by developed countries stagnated in this period. While developed countries decreased their share of the world market from 60 per cent to 53 per cent between these two years, developing countries increased their share from 40 per cent to 47 per cent.

18. Among developed country markets, the EEC (12) was the largest market, responsible for about one quarter of world net imports in 1984, followed by the United States - 9 per cent, the USSR - 7 per cent, other Eastern European countries - 3.5 per cent, Canada and Australia - 2 per cent, South Africa, Japan and other Western European Countries - 1 per cent each. In 1985 net imports of Eastern Europe and Japan increased significantly. Net imports have tended to decline in such traditional black tea drinking countries as the United Kingdom, Ireland, Australia, Canada, South Africa and New Zealand. Among developing countries Pakistan and Egypt were by far the largest markets for tea, accounting for 9 per cent and 8 per cent of world net imports in 1984, respectively.

19. For Japan, the EEC and the United States were the first and second suppliers of packed tea in 1984 while Sri Lanka was the principal supplier of both tea in bulk and instant tea. Imports of other tea products into Japan were negligible. For New Zealand the EEC was the principal supplier of packed tea and tea extracts. The principal supplier of tea in all forms to Canada was also the EEC.

C. Cocoa and cocoa products

(1) An overview of the tariff and non-tariff measure situation

20. With respect to cocoa beans and all cocoa products under study, the United States, Finland, Norway, Sweden and Australia provide developing countries duty-free treatment on an MFN basis or under the GSP. Canada,

Table 6

Net Imports of Tea

('000 metric tons)

	1980	1981	1982	1983	1984	1985[1]
World Trade	844.5	802.6	823.0	833.3	936.3	933.3
Developed countries	504.7	456.4	486.9	448.9	510.6	508.1
Western Europe	254.6	199.1	245.3	215.3	250.1	222.7
EEC	246.2	188.2	234.8	205.7	239.5	212.3
United Kingdom	186.7	135.3	183.6	155.2	184.2	155.4
Ireland	15.2	11.3	8.9	10.8	10.4	10.6
Netherlands	10.0	10.1	10.3	8.0	11.1	10.8
Germany, F.R.	14.7	15.1	15.5	14.0	17.1	17.0
France	8.9	8.3	7.7	8.9	8.4	9.1
Italy	3.5	3.2	3.5	3.3	3.1	3.8
Denmark	2.4	2.2	2.3	2.6	2.4	2.3
Belgium	1.1	1.3	1.4	1.3	1.4	1.3
Greece	0.3	0.5	0.3	0.3	0.3	0.4
Portugal	0.4	0.2	0.3	0.2	0.2	0.3
Spain	3.0	0.7	1.0	1.1	0.9	1.3
Other Western Europe	8.4	10.9	10.5	9.6	10.6	10.4
Sweden	2.9	2.8	2.9	2.9	3.1	2.8
Switzerland	1.7	1.9	2.0	1.7	2.0	2.1
Others	3.8	6.2	5.6	5.0	5.5	5.5
United States	81.8	84.0	80.9	75.2	85.9	77.1
Canada	20.3	18.8	17.7	19.8	20.5	15.7
Oceania	31.5	27.8	29.6	27.8	27.8	26.3
Australia	23.6	21.7	23.3	21.4	21.8	20.6
New Zealand	7.9	6.1	6.3	6.4	6.0	5.7
Others	34.6	28.4	24.1	27.5	28.6	34.3
Japan	13.8	11.2	9.0	9.9	12.8	21.2
Israel	2.9	2.1	2.0	2.2	1.9	2.2
South Africa	17.9	15.1	13.1	15.4	13.9	10.9
Centrally Planned Countries	81.9	98.3	89.3	83.3	97.7	132.0
Eastern Europe	30.1	31.1	32.5	32.2	32.8	41.8
USSR	51.8	67.2	56.8	51.1	64.9	90.2
Developing Countries	339.8	346.2	336.1	384.4	425.7	425.2
Latin America	15.0	13.5	12.9	13.9	12.7	14.8
Chile	11.3	10.5	10.5	11.6	10.0	12.5
Others	3.7	3.0	2.4	2.3	2.7	2.3
Near East	194.4	180.1	183.5	205.1	252.8	243.9
In Asia	117.8	107.7	107.0	119.7	156.9	148.7
Afghanistan	15.0	13.3	10.7	11.8	18.6	7.0
Iran	21.0	14.5	12.4	15.8	33.4	31.0
Iraq	30.0	29.7	36.5	37.3	45.7	40.0
Saudi Arabia	15.2	16.3	15.1	17.9	20.5	21.0
Syria	9.3	7.8	11.0	11.8	13.0	21.9
Others	27.3	26.1	21.3	25.1	25.7	27.8
In Africa	76.6	72.4	76.5	85.4	95.9	95.2
Egypt	54.4	53.0	57.3	65.0	76.1	73.1
Libya	13.0	6.1	7.4	7.5	8.7	10.1
Sudan	9.2	13.3	11.8	12.9	11.1	12.0
Other Africa	48.2	58.8	48.4	55.2	50.2	54.2
Far East and Oceania	77.6	89.3	87.1	105.4	104.2	106.6
Pakistan	60.8	72.4	69.4	86.3	85.3	89.0
Hong Kong	8.3	7.7	8.7	8.8	10.1	9.1
Others	8.5	9.2	9.0	10.3	8.8	8.5
Centrally Planned Countries	4.6	4.5	4.2	4.8	5.8	5.7

[1] Preliminary

Source: FAO document ESC:TE87/1.

Austria and Switzerland provide such treatment except for cocoa powder. Japan and New Zealand provide such treatment except for cocoa paste and powder.

21. The EEC maintains an MFN rate of 3 per cent on cocoa beans and higher duties on cocoa products (see Table 3.) Portugal and Spain have been EEC members since 1986. As a result, these countries are in the process of aligning their MFN duties to EEC common external duties. Thus, these countries' MFN duties on cocoa and cocoa products are being reduced except for some cases where their duty rates were the same as EEC rates or lower than EEC rates. Portugal's duties on cocoa paste and butter are being increased. These two countries have also adopted the EEC's GSP scheme and special preferences with some transitional arrangements. In 1987 the EEC removed a quota for the application of its GSP rate of 8 per cent on cocoa butter.

22. New Zealand applies global quotas on imports of cocoa paste. Denmark, France, Italy, Norway and Japan maintain selective internal taxes on cocoa and cocoa products. In early 1987 the Japanese Government submitted a tax reform bill to the Diet. This bill includes a proposal to abolish the 5 per cent commodity tax on non-alcoholic beverage items including cocoa powder. Reference may be made to Section II for details of these taxes and information on certain other notified non-tariff measures.

(2) <u>An overview of the trade flow situation</u>

23. The following table indicates that world trade of cocoa beans and cocoa products increased steadily between 1980 and 1985, but that cocoa exporting countries were not able to increase the share of cocoa products in their total exports of cocoa beans and products. About one-third of the cocoa beans are now ground in cocoa producing countries mainly for the export of semi-finished products, which are shipped to processors in developed countries.

World Imports (thousand metric tons)

	1980	1981	1982	1983	1984	1985
Cocoa beans	1,067.9	1,242.2	1,269.5	1,261.7	1,324.0	1,458.3
Cocoa paste	146.9	151.6	130.1	142.3	148.0	162.8
Cocoa butter	182.7	186.6	195.2	220.0	234.8	264.3
Cocoa powder and cake	170.3	189.2	180.3	213.1	227.8	232.7

Source: FAO Trade Year Book 1982-85.

24. With respect to cocoa beans and products, developed countries account for more than 90 per cent of world imports because the consumption of chocolate and other cocoa products is concentrated in these countries. The EEC is the largest market for cocoa, consuming about one-third of world cocoa production in 1984/85, followed by the United States which consumed about one-quarter and the USSR which consumed about 13 per cent. Other major consuming countries included Japan - 4.5 per cent, Canada - 3 per cent, German Democratic Republic - 2 per cent, Australia, Austria and Switzerland - 1.5 per cent each, Poland, Czechoslovakia, Hungary, Yugoslavia and Argentina - 1 per cent each. Such cocoa producing countries as Brazil, Colombia and Mexico were also significant consumers, each accounting for 2 to 3 per cent of world cocoa consumption.[1]

25. The tariff-related trade flow data in the Annex and previous background documents on tropical products show that in the EEC market (not including Portugal and Spain), the countries enjoying special preferences increased their share of trade in cocoa and cocoa products significantly in the period 1980-1984. With respect to cocoa beans, their share in EEC imports increased from 87 per cent in 1980 to 95 per cent in 1984, for cocoa paste from 65 per cent to 95 per cent, for cocoa butter from 71 per cent to 75 per cent and, for cocoa powder from 10 per cent to 80 per cent. A dramatic increase in the ACP share for cocoa powder reflected the displacement of imports from Malaysia and Singapore by those from Côte d'Ivoire.

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[1] A table showing cocoa consumption on a country-by-country basis will be inserted in a final document.

26. The separate data available for Portugal and Spain show that in 1984 Brazil was the principal supplier of cocoa beans to Spain, of cocoa paste to Portugal and Spain, and of cocoa butter to Portugal. Côte d'Ivoire was the principal supplier of cocoa beans to Portugal. Indonesia was the principal supplier of cocoa butter to Spain. Switzerland and Nigeria were the principal suppliers of cocoa powder to Portugal and Spain, respectively.

27. In 1984 the EEC (10) was the principal supplier of cocoa powder to Japan, Austria, Switzerland and New Zealand. For Norway the principal supplier of all cocoa products was the EEC. Canadian tariff item No. 2200-1 covers both cocoa powder and chocolate preparations. The principal supplier of this item was also the EEC.

28. For Japan the principal supplier of undefatted cocoa paste was Ecuador and the first and second suppliers of defatted cocoa paste were Brazil and Côte d'Ivoire. For New Zealand the principal supplier of cocoa paste was Japan.

SECTION II: Non-tariff measures

A. Quantitative restrictions

29. New Zealand maintains quantitative restrictions on a few tropical beverage items although the country has recently reduced the number of items subject to restrictions. The following items are still subject to global quotas:

- tea in packages under 2 kgs;
- cocoa paste, whether or not defatted.

Source: Import Licensing Schedule of New Zealand.

30. Effective from 1 July 1986 New Zealand had moved 340 categories subject to import licensing to licence-on-demand status. After twelve months, i.e. from 1 July 1987, licensing requirements for these items have been completely removed. This action included the following items:

- roasted coffee;
- extracts, essences or concentrates of coffee;
- unsweetened cocoa powder.

Source: L/5640/Add.18/Supp.1

(Note: GATT documents AG/FOR series include indications of import control measures taken by importing members of the International Coffee Agreement and the International Cocoa Agreement under the provisions of these Agreements.)

B. Selective internal taxes (excise taxes)

31. Internal taxes imposed specifically on such tropical products as coffee, cocoa, tea and bananas are a legacy of the time when these products were considered as "easily taxable luxury items". Such taxes have been gradually reduced or removed in a number of developed countries as these products have assumed the character of ordinary consumer goods. Moreover, with the increasing importance of general internal taxes such as the value-added tax, governments have come to rely less on taxes on tropical products as a source of revenue.

32. Selective taxes on tropical products have drawn particular attention in the work of GATT for developing countries since 1959. A report of Committee III in 1959 stated that "in regard to coffee, tea and cocoa, the taxes impinge exclusively on imports from the less-developed countries as there is no domestic production in the country imposing the taxes" (BISD, Eighth Supplement, page 138). The Ministerial Declaration of 1961 stated that "fiscal charges, whether imposed as tariff duties or internal taxes may inhibit efforts directed towards increasing consumption of particular products important in the trade of less-developed countries and, even where applied equally to imports and to competing domestic products, can be a serious obstacle to the expansion of trade" (BISD Tenth Supplement, page 30). One of the results of GATT activities in this area was the adoption of the provisions of GATT Article XXXVII:1(c) in Part IV with respect to "fiscal measures which would hamper, or which hamper, significantly the growth of consumption of primary products, in raw or processed form wholly or mainly produced in the territories of less-developed contracting

parties, and which are applied specifically to those products". It may also be noted that Paragraph 1 of GATT Article III states: "The contracting parties recognize that internal taxes and other internal charges... should not be applied to imported or domestic products so as to afford protection to domestic production."

Source: COM.TD/W/328/Add.2, COM.TD/W/329/Rev.1 and COM.TD/W/402.

33. In the Tokyo Round Negotiations, some member countries of the EEC submitted the following statements with regard to selective internal taxes on tropical products:

"EEC - statements on internal specific taxes applied to tropical products

"The Community has taken note of the observations made by a number of developing countries as regards specific taxes on a number of tropical products. In this respect, the member States which apply such taxes, make the following statements:

- "the Government of the Federal Republic of Germany, which applies specific taxes to coffee and tea, undertakes not to increase the level of these taxes in future;

- "the Government of Denmark states that it does not expect to increase the level of the specific taxes, which it applies to coffee and tea;

- "the Government of the French Republic, which applies specific taxes to tea, cocoa and some spices, undertakes not to increase the level of these taxes in future;

- "the Government of Italy, underlining the link with current economic policy in the present situation of that country, indicates that it will take this problem into consideration in a sympathetic manner."

Source: COM.TD/W/328, Annex 3.

34. On the basis of information available at the secretariat, Table 7 shows the rates of selective internal taxes in force and ad valorem incidences of specific rates. Most selective internal taxes are specific rates. Ad valorem incidences are, unless otherwise indicated, based on average unit values of imports of the country concerned in 1985. In cases where the same specific rate has remained in force, ad valorem incidence of the rate declined between 1981 and 1985 owing to increased prices of tropical beverage items in the period. However, as of early 1987, prices are lower than in 1985 and incidences have therefore risen again.

35. Coffee, tea and cocoa compete as beverage items with soft drinks and juices. In the European countries maintaining selective internal taxes on tropical beverage items, however, these competing beverage items, many of which are newcomers to the market, are rarely subject to such taxes.

36. Having regard to the provisions of the General Agreement and their other international commitments including some international commodity agreements, certain countries have refrained from introducing or increasing taxes on tropical beverage items in spite of proposals to do so for fiscal reasons. However, Belgium and Luxembourg introduced new taxes on coffee in 1981. Denmark and Norway have raised specific tax rates on cocoa for revenue reasons.

37. A feature of specific rates is that their incidence is higher on low-quality/low-priced goods than on high-quality/high-priced goods. For example, tea prices per kilogram vary widely according to quality and degree of processing, and so do the tax incidences on different teas. Given a relatively high tax incidence on low-quality tea, German importers generally purchase only high-quality teas. Therefore, the incidence of the German tax on tea obtained on the basis of the average German import unit value is much lower than that calculated on the basis of the average London price of tea. The impact of such taxes has been felt mainly by exporters of bulk tea as against those of packed tea and exporters of low-quality tea as compared to those of high-quality tea.

Table 7

Selective Internal Taxes
(rates and ad valorem incidences)

Note: Ad valorem incidences indicated in parentheses are, unless otherwise indicated in footnotes, based on average unit values of imports of the country concerned in 1985. In the case of EEC member countries, imports from outside the EEC have been used wherever available. Actual incidences as of early 1987 are higher than those indicated in this table due to declined prices of tropical beverage items.

Coffee	Belgium/ Luxembourg BF per kg.	Denmark DKr per kg.	F.R. Germany DM per kg.	Italy Lit per kg.	Japan[1]
Not roasted: regular	8(5.7%)	4.35 (15.1%)	3.60(40.9%)	500 (9.0%)	5%
decaf.	8(5.1%)	4.35 (10.3%)	3.80(34.2%)	525 (6.5%)	5%
Roasted: regular	10(6.3%)	5.22[2](14.5%)	4.30(27.0%)	625 (9.8%)	5%
decaf.	10(4.2%)	5.22[2](9.9%)[3]	4.55(22.9%)[3]	656.25 (5.7%)	5%
Extracts: regular	28(9.8%)	13.05 (10.3%)	9.35(55.7%)	1,500 (5.2%)	5%
decaf.			9.90(n.a.)	1,575 (n.a.)	5%
Tea		Denmark DKr per kg.	F.R. Germany DM per kg.	France F per kg.	
Bulk		5 (17.1%)	4.15(49.4%) (71.8%)[4]	0.23 (0.8%)	
In small packages (3 kg. or less)		5 (8.4%)	4.15(34.3%)	0.23 (0.4%)	
Extracts		12.5 (5.7%)	10.40(50.5%)	0.828 (4.0%)	
Cocoa	Norway NOK per kg.	Denmark DKr per kg	France F per kg.	Italy Lit per kg.	Japan
Beans		18.75[6] (88.4%)	0.07 (0.3%)	180[7](3.9%)	
Paste	9.40[5] (32.2%)	12.50[6] (64.8%)[3]	0.085(0.4%)	225 (7.0%)	
Butter	9.40[5](20.7%)	12.50[6] (27.8%)	0.085(0.2%)	280 (3.0%)	
Unsweetened powder		12.50[6] (152.4%)	0.085(0.6%)	170[8] 225 (5-6%)	5%

[1] In early 1987 the Japanese Government submitted to the Diet, a tax reform Bill. This Bill proposed to eliminate Japan's 5 per cent commodity tax on non-alcoholic beverage items, including all forms of coffee and cocoa powder.

[2] Reduced from Dkr 5.40 per kg. on 1 April 1986

[3] In 1985 there were no imports from outside the EEC. These incidences are based on imports from EEC members.

[4] Incidence based on the average London price of tea (source: IMF)

[5] The tax rate was NOK 7/kg on 1 April 1981 (cf.COM.TD/W/329/Rev.1). According to the delegation of Norway, it was changed as follows in recent years: 1 April 1985 NOK 8.50/kg., 1 April 1986 NOR 9.10/kg., 1 April 1987 NOK 9.40/kg.

[6] Increased to this level on 1 April 1986. The tax rate on cocoa products recorded in COM.TD/W/329/Rev.1 was DKr 6 per kg.

[7] The rate of tax on unroasted cocoa beans. The rates on roasted beans are Lit 200/kg. and Lit 225/kg. on uncrushed and crushed roasted beans, respectively

[8] Cocoa powder containing less than 1 per cent of cocoa butter.

38. The nature of a specific rate is such that its incidence increases when import prices in terms of the currency of the country concerned decrease, and vice versa. Such import prices have fluctuated as a result of fluctuations in prices on the world market and in exchange rates. For example, reduced prices as well as revaluations of a currency bring about increases in the incidence of a specific tax rate.

C. Other notified non-tariff measures

Coffee and processed coffee

39. Japan applies phyto-sanitary regulations to coffee[1] and New Zealand to selected items.[2] Norway applies labelling regulations on coffee.[3] New Zealand applies labelling, marketing and packaging regulations on all coffee and coffee products.[4] New Zealand has also notified an export subsidy on coffee.[5]

Tea and processed tea

40. New Zealand applies labelling, marketing and packaging regulations to all forms of tea;[4] Norway applies labelling regulations to tea.[6] New Zealand has notified an export subsidy on tea.[7]

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[1] GATT justification: Article XX(b); Source: AG/FOR/JPN/2.

[2] (CCCN ex0901); GATT justification: Article XX(b); Source: AG/FOR/NZL/1.

[3] (CCCN ex0901); GATT justification: Article XX(b); Source: AG/FOR/NOR/1.

[4] GATT justification: Article XX(b); Source: AG/FOR/NZL/1.

[5] GATT justification: Article XVI:3; Source: L/5102/Add.19.

[6] (CCCN ex0902); GATT justification: Article XX(b); Source: AG/FOR/NOR/1.

[7] (CCCN ex0902); GATT justification: Article XVI:3; Source: AG/FOR/NZL/1.

Cocoa and cocoa products

41. Japan and Sweden apply phyto-sanitary regulations to cocoa beans and unsweetened cocoa powder, respectively.[1] Norway applies labelling regulations to cocoa and cocoa products.[2] In Switzerland, a contribution is levied on cocoa imports towards a guaranteed fund for compulsory reserves. The stated aims of the fund are to protect the holders of stocks against possible losses and to cover warehouse costs. The contribution is regarded as a fee for services rendered by a mutual aid organization for holders of stocks. (N.B. Switzerland uses automatic licensing for all tropical beverages.)[3]

SECTION III: Activities of other organizations

42. Several international organizations undertake work which is relevant and complementary to negotiations in the GATT on tropical products.

43. With respect to inter-governmental facilities to compensate for shortfalls in commodity export earnings, the IMF Compensatory Financing Facility, the STABEX programme for ACP countries and a forthcoming arrangement, COMPREX, for non-ACP least-developed countries are noteworthy as measures of financial transfers to stabilize export earnings, while the variety of development projects and financial arrangements to promote and diversify exports are numerous.

44. Under United Nations auspices, UNCTAD is a major forum for international commodity action. Its principal achievements have been the Integrated Programme on Commodities (IPC), established as a result of resolution 93(IV) at UNCTAD IV and the Agreement on the Common Fund for Commodities. Designed to bring stability and strength to international

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[1] GATT justification: Article XX(b); Source: AG/FOR/SWE/2 and AG/FOR/JPN/2.

[2] GATT justification: Article XX(b); Source: AG/FOR/NOR/1.

[3] GATT justification: Article VIII; Source: COM.TD/W/329 and L/5223; and AG/FOR/CHE/1.

commodities markets, it was concluded in 1980 but has not yet entered into force since, although the required number (90) of countries have ratified the agreement, they do not account for the required two-thirds of the Fund's directly contributed capital.

45. As part of the implementation of the Integrated Programme on Commodities various international commodity agreements (ICAs) have been negotiated or renegotiated; in tropical beverages, the 1986 International Cocoa Agreement has recently entered into force. For the first time, Côte d'Ivoire, the world's largest producer, has become a signatory to the Agreement, although Malaysia, another large producer, is not a member. The market regulating mechanism, the buffer stock, with a maximum capacity of 250,000 tonnes (compared with 100,000 tonnes under the 1980 Agreement) is designed to stabilize prices by buying up cocoa on the open market when prices fall below the 85 US cents/lb (1,600 SDRs/tonne) or selling when prices reach 121 US cents/lb (2,270 SDRs/tonne). Purchases are limited to 5,000 tonnes daily, 20,000 tonnes weekly and may not exceed 75,000 tonnes in the first six months of application. Purchases may take price differentials into account and cocoa may also be bought from non-ICCO members up to a limit of 15 per cent of total purchases during the life of the Agreement. The buffer stock will continue to be financed through a levy on trade of 2 US cents/lb. Other innovations differentiating the new Agreement from the 1980 Agreement are the introduction of "may buy" and "may sell" zones 3¢ above or below the upper and lower intervention price, the calculation of prices in SDRs to alleviate the distortions caused by fluctuations of a single currency and a "withholding" scheme, a system of national stocks, either when 80 per cent of the buffer stock capacity has been filled or financial resources of the buffer stock are only sufficient to purchase 30,000 tonnes of cocoa.

46. The International Coffee Agreement 1983 effective through September 1989, which was negotiated between the twenty-five importing and fifty producing (the largest of which are Brazil, Colombia and Indonesia) members of the International Coffee Organization, is based on export quotas to support prices, applied when the moving average price falls below a given

price. The sharp rise in price - reaching an eight-year high of US$2.20/lb - at the end of 1985 brought to an end the ICO's successful five year record of keeping coffee prices within an agreed range. Quotas were suspended on 19 February 1986. At the time of this writing, an annual global quota of 58 million bags has been set but negotiations are still continuing on the possible redistribution of quota shares (they have changed little since the original ICA 1962) and the proposal to raise the official price range from 120-140 US cents/lb to 134-154 US cents/lb.[1]

47. The Commodities and Trade Division (ESC) of the Food and Agriculture Organization (FAO) of the United Nations pioneered commodity research and techniques for international co-operation in commodities, including tropical products. This Division, whose activities are geared towards improving the functioning of international trade in agricultural commodities, monitors the world market situation and advises developing countries on the implementation of their national commodity policies. In addition, while working closely with UNCTAD and independent commodity councils, the Division services the Committee on Commodity Problems (CCP) which over the years has created a network of intergovernmental groups of interested producing and consuming countries; such a group was established for tea in 1969. FAO's Intergovernmental Group on Tea issues reports at regular intervals on production, trade, consumption and prices of tea. Under both the FAO and the ISO (International Standards Organization) fora, discussions concerning minimum quality standards are continuing; the single regulation registered (ISO/3720) is a general guideline for the harvesting, processing and manufacturing of tea leaves into quality grades.

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[1]For reference, the 1979-81 average ICO composite indicator price was 134 US cents/lb.

48. Through the International Trade Centre (ITC), jointly funded by GATT and UNCTAD, technical cooperation activities, such as workshops and advisory assistance, affecting tropical beverages is ongoing. A Cocoa Traders' Guide addressing in particular the needs of the smaller and less-developed cocoa-producing countries, will be published shortly and a Coffee Traders' Guide is in preparation. Recently, ITC organized a symposium on the financial aspects of tea production for export and this year will provide some inputs to an international conference on bulk packaging of tea. The possibility of an international tea agreement has intermittently been under discussion among tea-producing countries for more than a decade. The International Tea Promotion Association (ITPA), an intergovernmental body of tea producing-exporting countries, was established in 1980; however, the largest producers, India and Sri Lanka, withdrew their membership. In 1983/84, India restricted tea exports for a period of time and prices rose accordingly although have since returned to previous levels.