

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Special Group on Trade in Tropical Products

CURRENT STUDIES AND CONSULTATIONS RELATING TO TROPICAL PRODUCTS

Notes by the Secretariat

Introduction

1. Tropical products have occupied a prominent place in the list of commodities considered by the CONTRACTING PARTIES since the inception of the Programme of Expansion of International Trade in 1958. In the years 1959 and 1961, Committee III, which was set up under the Programme, examined in detail the obstacles to trade in tropical products along with other commodities and, in its successive reports, called attention to the adverse effect on the exports of developing countries caused in particular by high customs tariffs and internal fiscal charges on tropical products in importing countries.¹ On the recommendation of Committee III, the Council of Representatives established a Special Group on Trade in Tropical Products in February 1962 to examine ways and means of overcoming difficulties confronting developing countries exporting tropical products. In the light of the findings of the Special Group and of Committee III, consideration was given to an eight-point programme of action at the Ministerial Meeting of the CONTRACTING PARTIES held in May 1963, which included, inter alia, duty-free entry for tropical products and progressive reduction of internal fiscal charges and revenue duties.² When the Kennedy Round negotiations commenced, the Special Group on Trade in Tropical Products was transformed into a negotiating body and was instructed "to pursue further the question of trade in tropical products with a view to working out arrangements and procedures for their treatment in the trade negotiations".³ On the conclusion of the negotiations the Committee on Trade and Development appointed an ad hoc group to assess the Kennedy Round results for less-developed countries and, in the light of the examination carried out by that group, noted that although tariff concessions were granted in the Kennedy Round by many contracting parties in respect of many tropical products, the objective of tax and of duty-free entry was not achieved for all tropical products in the negotiations. The most common reasons for maintaining duties and taxes on tropical products were the need to maintain preferential margins for certain preferential suppliers, the protection of domestic agriculture against

¹BISD, Eighth Supplement, pages 132-141; Ninth Supplement, pages 120-169; and Tenth Supplement, pages 167-185.

²BISD, Twelfth Supplement, page 37.

³TN.64/SR.10.

direct competition from, or substitution by, imported tropical products and fiscal considerations.¹ It was against this background that the CONTRACTING PARTIES, on the recommendation of the Committee on Trade and Development, agreed at their twenty-fourth session that the Special Group on Trade in Tropical Products be reactivated. The terms of reference of the Special Group were "to examine problems affecting trade in tropical products and report on ways and means of overcoming those problems". The CONTRACTING PARTIES further agreed that the Group should also, inter alia, study the incidence of internal charges and revenue duties on tropical products.

2. The first meeting of the reactivated Special Group on Trade in Tropical Products was held on 17 January 1968. The Group addressed itself to certain points of procedure and also considered the product coverage for its future work. After a discussion of various views, the Group agreed that for purposes of preparatory work and in the formulation of proposals, attention should, in the first instance, be given to the following products: tea, coffee, cocoa, bananas, vegetable seeds and oils, and spices. It was also agreed that governments should be invited to submit proposals on the nature and scope of its work after the conclusion of the UNCTAD session in New Delhi.

3. Four contracting parties² responded to the request and sent proposals. The proposals submitted seek consideration by the Special Group of problems relating to tariff and non-tariff barriers including fiscal charges and revenue duties, as well as problems relating to the existence of certain preferential arrangements. In some cases, it was suggested that the Special Group should investigate the difficulties in marketing, the instability in prices and competition from synthetics, and that it should also appraise the effects of other barriers on trade and consumption and of their removal. The need to co-ordinate the Group's activities with those of other international organizations was emphasized.

4. The Group met on 10 July 1968 to consider these proposals. In order to facilitate the task of the Group in examining the proposals, the secretariat prepared a paper setting out recent movements in production, prices and the trade in the six product groups selected for priority study, and tariff and non-tariff regulations that apply to these products in principal importing markets.³ At this meeting, the Group generally agreed that the secretariat should be asked to carry further the studies which it had undertaken on problems relating to trade in tropical products. In view of the particular interest shown by developing countries on the effects of revenue duties and internal charges in developed countries on the trade in tropical products, the studies of the secretariat were to be further elaborated in relation to these points.⁴ It might be noted that

¹L/2912, paragraph 9.

²Brazil, Ceylon, Kenya and the United States.

³SGTP/5.

⁴See annex for certain data relevant to the trade problems of the products in question.

certain studies have also been made on the income gains to developing countries that might result if the levies applied in the developed countries on the tropical products were refunded to the exporting countries.¹

5. The consensus after the exchange of views at the meeting in July was that the Special Group should continue to assume the responsibility of exploring ways and means of resolving problems in the trade in tropical products and that informal consultations might be held with interested countries, including non-GATT members, in respect of the particular tropical products chosen for priority consideration so that appropriate action might be pursued in the Group. Such consultations are being pursued in an informal way and it has been proposed by the Chairman of the Group that the Group be convened at an appropriate date in the light of the progress made.

¹See A. Maizels, "Alternative Fiscal Policies for Tropical Export Products", Food and Agriculture Organization Special Studies Programme, 1965, quoted in UNCTAD "The Development of an International Commodity Policy" (TD/8/Supp.1, pages 117-118).

Annex

NOTES ON THE COMMODITIES BEING DEALT WITH IN THE
SPECIAL GROUP

1. Some of the salient and relevant points relating to the six commodity groups taken up at the last meeting of the Special Group are as follows¹:

Tea

2. The tariff on tea in bulk has practically been abolished in all the major developed countries with the exception of Japan. In Japan, in addition to a 20 per cent duty on black tea in bulk and in small containers, there is quantitative limitation of imports to protect domestic production. Tea in small containers is still subject to duties in the EEC, Austria, New Zealand, and South Africa. In some countries internal taxes are imposed on tea, for example, in the Federal Republic of Germany, it is subject to a tax of DM 4.15 per kg. which on 1966 import unit values represented an average incidence of 73 per cent. France levies a similar charge at F 23 per 100 kgs., the incidence of which was about 3 per cent. In addition to these internal revenue charges, one other factor which has been suggested for consideration is the question of margin and distribution charges at various levels in tea trade which supplement the internal charges and thereby impede growth in consumption. Recent studies on the pattern of demand and supply of tea indicate that the long-term growth in import demand is rising at a slower pace than the supply especially in the major consuming countries of the Commonwealth. This situation would appear to be at least partially reflected in the declining trend of tea prices at the London auctions since the early 1960's. In order to stem the declining trend in tea prices, ad hoc consultations at governmental level have taken place under the auspices of the Food and Agriculture Organization.

Coffee

3. The value of coffee exports, which had fallen to less than US\$1,800 million in 1961 and 1962, rose by 1966 to more than US\$2,300 million. The growth in the volume of exports since 1962 has been achieved largely under the aegis of the International Coffee Agreement. This was accompanied by a recovery in export prices. Under the provisions of the International Coffee Agreement (the parties to which account for 99 per cent of world exports and 96 per cent of world imports) cognizance is taken of measures which might hinder the possible increase in the consumption and trade in coffee. Member countries are required to investigate ways and means by which these obstacles could gradually be reduced or eliminated or their effect reduced. The United States, the world's largest importer, granted duty-free entry to raw coffee before the Kennedy Round negotiations. In the course of these negotiations, several other countries,

¹Documents SGTP/5 and COM.TD/48/Rev.1 and L/2808 contain detailed information.

namely, Canada, Norway, Japan, Yugoslavia and Ireland, removed their duties or consolidated their tariff rates at zero. The rate of duty in the European Economic Community was consolidated at 9.6 per cent. In Switzerland, the rate of duty was reduced by 8 per cent to the equivalent of about 13 per cent. Denmark made no tariff concession but arranged for the transfer of up to one half of the customs receipts from coffee to a fund to be used for the promotion of investment in developing countries. Duties on imports of roasted coffee and on extracts, essences or concentrates of coffee are higher than those on raw coffee with the exception of the United States and Denmark. Substantial reductions have been conceded in the Kennedy Round but in most cases the rates of duty will continue to be higher than in raw coffee. However, world trade in roasted coffee is insignificant.¹

4. There has been some discussion of the preferential margins by certain coffee exporting countries in import markets in Europe on the grounds that they impede the implementation of the provisions of the International Coffee Agreement dealing with the removal of obstacles to consumption. Some important consuming countries have maintained revenue taxes on coffee, which according to information available, amount to DM 3.60 (90 United States cents) per kilogramme of green coffee which indicates in terms of 1966 import values, an average incidence of 89 per cent; Italy charges 80 United States cents per kilogramme or an average incidence of 103 per cent and France F 22.10 per 100 kilogrammes (at present suspended), and in Japan there is an internal tax of 5 per cent. In some countries, there is a specific tax on the consumption of coffee, e.g. the Federal Republic of Germany, France and Italy. Turnover taxes are applied in Austria, the Federal Republic of Germany, Italy and Finland and in view of the fact that these taxes are levied at different points of distribution and sale, it may be difficult to make precise estimates of tax burden.

Cocoa

5. The cocoa market is characterized by large price fluctuations linked with variations in the volume of production. Price for a given crop is closely correlated with the level of expected production, the level of expected demand for grindings, and the size of existing stocks. The price elasticity of demand for grindings is the result of the price elasticity of the final demand for chocolate confectionery and of the substitution elasticity at the factory level between cocoa and other products such as nuts. For these reasons the problem of cocoa price stabilization has been the subject of three United Nations Cocoa Conferences since the beginning of the present decade. The negotiation of an international cocoa agreement remains a matter under active consideration.

¹For details see document SGTP/5 and COM.TD/W/34.

6. Cocoa enters world trade mainly in the form of beans. However, with the establishment of new processing facilities in some West African producing countries, the export of cocoa in semi-processed forms has expanded rapidly in recent years. In 1964-66 about 7 per cent of the world crop was processed for export in these forms. World export earnings from cocoa and cocoa products amounted to about \$550 million on the average during 1964-67.

7. With the full implementation of the concessions negotiated under the Kennedy Round imports of cocoa beans into developed countries should become substantially free of duty. The main exceptions relate to the non-preferential trade of the EEC, Spain and Portugal. Under the Convention of Yaoundé of 1964 the Associated African States and Malagasy Republic, of which Ivory Coast and Cameroon are the largest cocoa producers, were accorded duty-free entry into all member countries of the EEC. Apart from duties, and other measures which affect the price of other ingredients in the final product, there is a wide variety of internal taxes charged on cocoa and cocoa containing products at different stages of manufacture or marketing, and their nature and importance differ considerably from country to country. These taxes tend to raise the level of retail prices of chocolate or other cocoa products.

8. Among the countries which impose internal taxes, Denmark levies a tax of $66 \frac{2}{3}$ per cent of the sales price excluding tax as well as a "weight tax" of Dkr 1.80 per kilogramme on the wholesale price, Norway imposes a chocolate tax of $66 \frac{2}{3}$ per cent on the wholesale price and a general 12 per cent sales tax, and in Sweden a luxury tax on the factory price of chocolate products is levied at the rate of 50 per cent as well as a special tax of SKr 60 per 100 kilogrammes and a general turnover tax of 11.1 per cent. Turnover tax at specified marketing stages is levied in the Federal Republic of Germany, Netherlands and Ireland. Since this tax is applied at various points of distribution and marketing it is difficult to assess its incidence. In Italy a consumption tax of Lire 250 per kilogramme on cocoa beans, Lire 312.5 per kilogramme on cocoa butter, paste and powder and Lire 125 per kilogramme on chocolate and chocolate confectionery, is charged. France charges a general cumulative tax but unlike the turnover taxes, it is charged only on the value added at each stage at a rate of 20 per cent but at 6 per cent on cocoa beans and some cocoa products.

Bananas

9. During the past decade banana production for export has expanded rapidly. The main source of commercial banana production continues to be Latin America, accounting for about 75 per cent of world exports. The second major supplying area is Africa, especially the Ivory Coast, Somalia and the Canary Islands. These countries enjoy protected market in Western Europe. A similar market situation exists for Jamaican and Windward Island supplies in the United Kingdom, and Guadeloupe and Martinique bananas in France. This aspect of the situation is reflected in the fact that some of the major importing countries either regulate their imports by source or apply quotas and tariff restrictions. In the United Kingdom imports of bananas from countries in the dollar area are restricted

to an annual quota of 4,000 tons; in France two thirds of the market is reserved for national production from the departments in the West Indies and one third for that of African States in the franc zone, and in Italy quantitative limitations are being applied as a transitional measure in connexion with adjustments following the dissolution of the State monopoly.

10. Price elasticity of demand for bananas has tended to decline with the rise in income and per caput consumption in the developed countries. It seems that the per capita consumption is unlikely to rise at as rapid a pace as in the past in areas other than the Socialist countries in Eastern Europe.

11. In the EEC countries, the common external tariff provides for a 20 per cent duty which was not modified in the Kennedy Round. Imports of bananas into the Community was to be liberalized on 1 July 1968 but owing to certain problems, negotiations have not been completed but in future the common external tariff will apply. The Federal Republic of Germany, the largest importer after the United States, has, nevertheless, been granted duty-free quotas. In the Benelux countries the initial 15 per cent duty has been adjusted on several occasions and is now 18 per cent for countries other than the associated countries which pay only 3.7 per cent duty. In the Kennedy Round, Sweden, Denmark and Norway reduced to zero level the duties and Switzerland bound its duty at Sw F 0.20 per kilogramme. The United Kingdom charges a duty of 7s.6d. per cwt. (approximately 14 per cent ad valorem) on imports from non-Commonwealth countries. Apart from these levies, taxes are imposed on bananas in many countries, either at the time of import or at a subsequent stage at wholesale price.

Oilseeds and vegetable oils¹

12. The share of palm oil, palm kernels, copra and groundnuts and oils in the world trade in fats and oils was 33 per cent in the period 1964-66 in contrast to 41 per cent in 1956-58; and in 1967 their share was 32 per cent. A detailed analysis of oilseeds and vegetable oils is contained in SGTP/5. Among the major importers of oilseeds and vegetable oils, the EEC permits duty-free entry for oilseeds from all sources. There is, however, a duty on oils which amounts to 5 per cent for raw oils for technical use (4 per cent for palm oil), 8 per cent for these oils when refined, 10 per cent for raw oils for food use (9 per cent for palm oil) and 15 per cent for these oils when refined (14 per cent for palm oils) from sources other than the associated member countries. In the United Kingdom, the level of duties on groundnuts, copra, palm kernels and nuts and their oil and palm oil remains at 10 per cent for countries not belonging to the Commonwealth. In the United States, where soybeans and groundnuts are

¹Groundnuts and groundnut oil, copra and coconut oil, palm kernels and palm-kernel oil and palm oil.

extensively grown and are subject to complex regulations, duties on most oilseeds have been maintained, the major exception being palm nuts and kernels which enter duty free. Imports of copra from the Philippines and the United States territories in the Pacific area are entered duty free. No tariff reductions on the major tropical oilseeds were made during the Kennedy Round by the United States. Document SGTP/5 contains an account of various charges which are being levied in the United States.

Spices

13. A large number of spices are traded internationally but among them only some are important in world trade. World exports of spices amounted to about \$170 million. By far the most important among them is pepper which accounts for one third of the value of world spice exports, followed by pimentos, capsicum and chillies which account for about 15 per cent. The remaining major spices are cinnamon and cassia, nutmeg and mace, cardamom, vanilla, cloves and ginger.

14. Import duties on spices are generally levied at different rates depending upon whether these are imported in bulk, ground, unground, processed and bottled. The two major European markets, the EEC and the United Kingdom, have granted preferential treatment to spice imports from the associated countries and Commonwealth suppliers respectively. However, as a result of the Kennedy Round, the importance of preferential system has diminished. The United Kingdom abolished its duty on pepper and reduced to 5 per cent its duties on cinnamon and cassia but duties on other spices remain unchanged. The EEC duties on spices were reduced by less than 50 per cent, pimentos and cinnamon will be subject to a 10 per cent duty and duties for most other spices will be 12.5 per cent to 15 per cent and that for unground pepper has been reduced to 17 per cent ad valorem. In the United States and Japan, most of the unground spices are admitted duty free and the rates affecting processed spices were in general cut by 50 per cent. These rates have been mentioned in SGTP/5.