

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Limited Distribution

Special Group on Trade in Tropical Products

IMPORT DUTIES AND INTERNAL CHARGES ON TROPICAL PRODUCTS

Introduction

1. During their twenty-fourth session, the CONTRACTING PARTIES agreed to reactivate the Special Group on Trade in Tropical Products with the following terms of reference:

"to examine problems affecting trade in tropical products and to report on ways and means of overcoming those problems".

"The CONTRACTING PARTIES agreed that the Special Group should also, among other problems, study the incidence of internal charges and revenue duties on tropical products."

2. The Special Group decided that in the formulation of proposals, attention should in the first instance be given to tea, coffee, cocoa, bananas, vegetable seeds and oils and spices. Natural rubber was added to the above list of products at a meeting of the Committee on Trade and Development in March 1970.

3. It was agreed at the sixteenth session of the Committee on Trade and Development that the Special Group on Trade in Tropical Products would at its next meeting consider inter alia, the problems of internal charges in relation to the commodity groups to be given priority consideration. In this connexion, it was suggested at the March meeting of the Committee, that the secretariat should prepare a paper reviewing how the Ministerial Conclusions of May 1963, concerning the progressive removal of internal charges and revenue duties had been carried out. It was felt that, considering the long interval which had passed since the adoption of these Conclusions, it was timely that the whole question of internal charges imposed on tropical products be discussed by the Special Group.

4. For background information, the relevant extracts of the 1963 Ministerial Conclusions concerning quantitative restrictions, fiscal charges and revenue duties and import duties are reproduced in Annex A. As indicated in the Annex, the Ministers of the EEC and the States associated with the Community were unable to support the Conclusions. With regard to the standstill provision of the Conclusions, Ministers of industrial countries, other than the EEC, stated that they would conform except where special and compelling circumstances rendered departure from it unavoidable. The Ministers of a small number of countries, mainly dependent for their export earnings on a narrow range of primary products, welcomed the Action Programme and

undertook to give effect to it to the best of their ability. However, because they were in the process of diversifying their economies through industrial development, they would have difficulty in accepting inflexible tariff commitments for certain products.

5. In this connexion, note might also be taken of the provisions of Part IV which, in respect of internal charges, states that developed contracting parties shall, to the fullest extent possible:

- "(i) refrain from imposing new fiscal measures, and
- (ii) in any adjustments of fiscal policy accord high priority to the reduction and elimination of 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".

6. Details of import duties and internal charges imposed on coffee and coffee products, cocoa and cocoa products, tea, bananas and pepper by the major industrialized countries in 1962 and 1969 are recorded in the attachment.¹ For the purpose of this note, internal charges are described as those consumption taxes which are eligible for border tax adjustments. They include the more generally applicable forms of indirect taxation on goods such as single-stage taxes, turnover taxes, and value-added taxes as well as selective excise taxes sometimes applied by particular countries to particular products.² For convenience, a distinction is made in the attached tables between the more general forms of taxes and the selective excise taxes. In recent years, there have been instances where single-stage taxes, turnover taxes and selective excise taxes have been suppressed and incorporated into or replaced by a value-added tax. For this reason, it was considered appropriate to include both the selective excise taxes and taxes of a more general nature in the examination of the total burden of indirect taxation on the above-mentioned tropical products.

7. The observations contained in the following paragraphs are intended to highlight some of the more important developments with regard to the application of quantitative restrictions, import duties and internal charges since the

¹Issued as an addendum to this document.

²It is understood that local taxes (e.g. State sales taxes and city taxes) are applied in certain countries. This aspect is however not dealt with in the present note.

1963 Ministerial Conclusions and to draw attention to certain salient features of the current situation. As indicated, reference is made not only to internal charges, but also to quantitative restrictions and import duties in order to provide a more complete picture of the position.¹

General observations

8. Quantitative restrictions

In a number of countries, imports of certain tropical products such as raw and processed coffee and raw and processed cocoa have been liberalized since the 1963 Ministerial Conclusions. Coffee and coffee products, cocoa and most cocoa products and pepper were not subject to quantitative restrictions in the importing countries listed in the attachment during 1969. With regard to black tea, Japan has notified her intention of removing the global quota restrictions by the end of 1971. Chocolate and other food preparations containing cocoa (BTW 18.06) are subject to quota in Japan and products included in 18.06 which contain more than 50 per cent butterfat are subject to global quota in the United Kingdom. Chocolate milk-crumbs imports into the United States are also subject to quota. Quantitative import restrictions are applied to bananas by France, Italy and Finland. The annual duty-free global quota for bananas in the Federal Republic of Germany has been sufficiently large to meet virtually all domestic needs each year. A quota is also applied to banana imports into the United Kingdom from the dollar area.

9. Import duties

The attached schedule of import duties and internal charges provides an analysis of changes in tariffs since the Ministerial Conclusions of May 1963 and during the Kennedy Round.

A limited number of the tropical products selected for priority consideration by the Special Group are included in the indicative offer lists² submitted by OECD countries in connexion with the generalized scheme of preferences for developing countries. For the commodities involved, duty reductions are indicated in some cases and duty-free treatment in others. It should be noted that the proposals submitted by participating importing countries individually and collectively concerning the operation of the scheme are subject to certain qualifications and reservations and are of a provisional character.

¹The figures mentioned in the text are subject to amendments which may be necessary in the light of factual data supplied by governments.

²For details, see GATT document SGTP/15.

10. Internal charges and revenue duties

(a) Although internal taxes fell within the scope of the Kennedy Round negotiations and the developing countries made efforts to obtain reductions in these taxes, no such concessions were granted.

(b) As indicated in the attachment, selective excise taxes are sometimes imposed on particular products and the available information indicates that some changes have occurred since 1962. Excise taxes imposed by France on coffee and tea were abolished on 1 January 1968 and replaced by a value-added tax. In the Federal Republic of Germany there was a small downward adjustment in January 1969 in the selective tax on roasted and soluble coffee. However, the tax of DM 3.6 per kg. on unroasted coffee has been maintained. In Italy, the selective taxes on coffee (Lit 500 and Lit 690 per kg.) and cocoa at varying rates according to product, appear to have remained unchanged since 1962. Denmark imposes an excise duty of DKr 6 per kg. on certain semi-processed cocoa products.

(c) In Italy, a consumption tax on bananas which provides for a preference to imports from the Republic of Somalia was introduced in 1965 following the abolition of the State monopoly, and increased in 1966. On 27 February 1970, the CONTRACTING PARTIES agreed to a request from the Government of Italy that the application of the consumption tax at a lower rate for 100,000 tons of bananas originating in the Republic of Somalia than for bananas of other origins be extended from 28 February 1970 to 31 December 1970. The Government of Italy has declared its intention not to seek a further extension of this arrangement.

(d) In those cases where certain countries employ single-stage sales and purchase taxes for revenue earning purposes, the tropical products under consideration, both in their natural and processed forms, were largely exempt from such taxes in 1969. The single-stage turnover tax applied in Finland at a uniform rate to most goods was reduced from 25 per cent to 12.4 per cent during the period 1962/69. As food and beverages (except alcohol) are not subject to internal charges in Switzerland, all the products under consideration are exempt from tax in that country.

(e) A number of countries operate turnover tax arrangements which are multi-stage and cumulative (cascade taxes) and both domestically produced and imported goods are required to pay these taxes. The rates of tax which differ between countries sometimes also differ according to product category within a country. It is not clear whether this is because of fiscal policy reasons or

commercial reasons associated with consumption aspects. In Austria, for example, raw coffee was subject to a turnover tax of 6.25 per cent on the duty-paid value in 1969, while raw cocoa beans were exempt. For Belgium, the two rates were 14 per cent and 7 per cent respectively and in Italy the general turnover taxes on raw coffee and cocoa beans were 14.4 per cent and 4 per cent.

(f) A number of European countries have recently moved over from single-stage and cascade taxes to a tax on value-added (TVA) system. Belgium and Italy, the two member countries of the EEC which have not yet introduced the TVA are expected to do so in the future. With regard to implementation, there is some difference of emphasis in the method of tax application. It might be noted that while in the Nordic countries the tendency is to apply the same rate of tax on virtually all goods so that the products listed in the Annex bear the same tax as other goods, in the EEC countries which have implemented the TVA, different levels of tax occur according to product category. France, for example, utilizes four rates of TVA and the Netherlands and the Federal Republic of Germany, two rates. As with the cumulative turnover taxes it is not clear whether these tax distinctions have been made for fiscal policy reasons or commercial reasons associated with consumption.

(g) Raw coffee and bulk tea imports into the Netherlands and Federal Republic of Germany (where excise taxes on coffee are also applied) were subject to the lower TVA rates of 4 per cent and 5.5 per cent respectively in 1969, whereas in France imported raw coffee was subject to the intermediate rate of 17.6 per cent. Cocoa beans and certain cocoa products imported into the Federal Republic of Germany and France were subject to the lower TVA rates of 5.5 per cent and 7.5 per cent respectively, while in the Netherlands the standard rate of 12 per cent was applied except to chocolate and confectionery for use as a sandwich spread. Bananas were exempt from TVA in France and subject to reduced rates of 4 per cent and 5.5 per cent in the Netherlands and the Federal Republic of Germany. Certain fresh fruits originating in tropical countries (but excluding bananas) have been exempted from TVA during the years 1969, 1970 and 1971 in the Netherlands. Other tropical products - processed coffee, pepper and processed tea - are in some cases subject to tax rates ranging from 11 per cent to 17.6 per cent in the EEC countries applying the TVA.

(h) Consideration is being given in the EEC to the approximation of TVA rates and an alignment of the systems and rates of the main consumer taxes applied by the member States in accordance with Article 99 of the Treaty of Rome. This provides that the Commission shall consider in what way the laws of the various member States concerning turnover taxes, excise duties and other forms of indirect taxation can be harmonized in the interest of the Common Market. The Commission is required to submit proposals to the Council of the EEC on these aspects.

¹1969 Interim Report of Working Party on Border Tax Adjustments - L/3290, paragraphs 25-28.

(i) The question as to whether border taxes should be applied to products of export interest to developing countries which are not produced in developed countries has been subject to some discussion in the Working Party on Border Tax Adjustments. While a number of countries took the position that such products could not be appropriately exempted from internal taxes, some other countries considered that no internal taxes should be levied by developed countries on such products.

ANNEX

Import Duties and Internal Charges

Ministerial Conclusions, May 1963¹

1. Measures for the Expansion of Trade of Developing Countries as a Means of Furthering their Economic Development.

The following paragraphs are extracted from the Conclusions which Ministers of the EEC and the States associated with the Community were unable to support. These Ministers emphasized their belief that the general and primary objective was to organize markets and to increase the export earnings of the less-developed countries. With that end in view they referred to their Declaration concerning the Programme of Action set forth in paragraph 6 of the Ministerial Conclusions. Ministers of industrialized countries, other than those of the EEC, stated that they would conform to the standstill provision except where special and compelling circumstances rendered departure from it unavoidable. Ministers of a small number of countries, mainly dependent for their export earnings on a narrow range of primary products, undertook to give effect to the Action Programme to the best of their ability. However, since they were in the process of diversifying their economies through industrial development, they would have difficulty in accepting inflexible tariff commitments for certain products.

(i) Standstill provision

No new tariff or non-tariff barriers should be erected by industrialized countries against the export trade of any less-developed country in the products identified as of particular interest to the less-developed countries. In this connexion the less-developed countries would particularly mention barriers of a discriminatory nature.

(ii) Elimination of quantitative restrictions

Quantitative restrictions on imports from less-developed countries which are inconsistent with the provisions of GATT shall be eliminated within a period of one year. Where, on consultation between the industrialized and the less-developed countries concerned, it is established that there are special problems which prevent action being taken within this period, the restriction on such items would be progressively reduced and eliminated by 31 December 1965.

¹BISD, Twelfth Supplement, pages 36/47.

(iii) Duty-free entry for tropical products

Duty-free entry into the industrialized countries shall be granted to tropical products by 31 December 1963.

(iv) Elimination of tariffs on primary products

Industrialized countries shall agree to the elimination of customs tariffs on the primary products important in the trade of less-developed countries.

(v) Reduction and elimination of tariff barriers to exports of semi-processed and processed products from less-developed countries

Industrialized countries should also prepare urgently a schedule for the reduction and elimination of tariff barriers to exports of semi-processed and processed products from less-developed countries, providing for a reduction of at least 50 per cent of the present duties over the next three years.

(vi) Progressive reduction of internal fiscal charges and revenue duties

Industrialized countries shall progressively reduce internal charges and revenue duties on products wholly or mainly produced in less-developed countries with a view to their elimination by 31 December 1965.