

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

SGTP/25

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Special Group on Trade in Tropical Products

MEETING OF THE GROUP HELD ON 18 OCTOBER 1971

Note on Proceedings Prepared by the Secretariat

Introduction

1. The Committee on Trade and Development, at its seventeenth session, invited the Special Group on Trade in Tropical Products to continue its discussions with a view to seeking solutions to the problems before it. The Special Group met on 18 October 1971. The meeting was chaired by Mr. M.G. Mathur, Assistant Director-General, on behalf of the Director-General.
2. The provisional agenda (SGTP/24), which provided for an examination of the market situation and commercial policy measures taken in respect of selected tropical products, internal charges and revenue duties on tropical products, import duties on new and improved forms of natural rubber, and barriers to trade and internal charges on vegetable oilseeds and oilseed products, was adopted.

General review

3. The Group reviewed the market situation for the tropical products under consideration as well as commercial policy measures taken by governments and activities in other international organizations, in the light of documentation¹ prepared by the secretariat.
4. The representatives of several developed countries drew attention to the positive measures in the form of a reduction or elimination of import duties, quantitative restrictions and internal charges on certain tropical products which were outlined in the secretariat documentation. These representatives also referred to the inclusion of certain tropical products in their general lists of preferences for developing countries. Most representatives of developed countries indicated their support for the negotiation of an International Cocoa Agreement and stated that they would continue to play a positive and constructive rôle in further work towards this objective.
5. Representatives of developing countries welcomed with appreciation the positive actions taken on tropical products by developed countries since the previous meeting of the Special Group. They noted, however, that, although a limited number of tropical products had been included in the generalized system of preferences by certain developed countries, there was considerable scope for further action in this direction. Furthermore, they supported the recommendations in respect of tropical products contained in the preliminary report of the Group of Three.

¹SGTP/22 and SGTP/23 and corrigendum and addenda

6. The representative of Italy was requested to indicate whether existing internal taxes on tropical products and notably bananas, would be eliminated when his country applied the value-added tax. The representative of Italy stated that his Government had only recently been given a mandate by the parliament to study the matter as it affected tropical products. The points raised in the Special Group would be given due consideration in this connexion.

7. Representatives of a number of developing countries expressed concern at the adverse effects of the imposition of a temporary import surcharge recently introduced by the United States on the trade and development prospects of countries exporting tropical products which included some of the least developed of the developing countries. While recognition was given by these countries to the fact that duty-free raw materials were exempt from the surcharge, it was nevertheless noted that a number of semi-processed and processed tropical products such as cocoa products, and new and improved forms of natural rubber were subject to the surcharge. These representatives indicated that the share of these products in total United States imports was relatively small and that the surcharge imposed on such products could have only a negligible impact on that country's balance-of-payments situation. On the other hand, these products were of considerable importance to a large number of developing countries who were trying to diversify their economies and meet competition from synthetic and substitutes. They noted that certain products had been exempted from the surcharge and for the reasons outlined, requested that such exemption be extended also to tropical products including those in their semi-processed and processed forms exported by developing countries.

8. The representative of the United States, referring to the discussion which had already taken place in the Working Party on the temporary surcharge and in the Council, felt that his Government's position had been clearly stated on those occasions. He pointed to the fact that the vast majority of United States tropical product imports were already exempt from the surcharge. The decision to exempt products not subject to duty had been influenced by the recognition of the importance of such products for the trade of developing countries. Nevertheless, he took note of the request for exemption of all tropical products made by the representatives of developing countries.

Internal charges and revenue duties

9. Representatives of developing countries referred to the proposals¹ made at the last meeting of the Special Group concerning internal charges and revenue duties. They appreciated the pragmatic approach which had apparently been adopted by certain member States of the European Economic Community in reducing some internal charges on tropical products since the last meeting of the Special Group but hoped that the proposals made could be accepted by governments as general guidelines.

¹These proposals are annexed.

10. At the invitation of the Chair, the observer from FLO provided background information on developments relating to certain tropical products. He referred, inter alia, to the recent serious deterioration in cocoa prices which reflected the large crop anticipated and a weaker-than-expected consumer response to the lower prices. In addition, competition from substitutes for cocoa butter was considered to be a contributing factor which had assumed increasing importance. As internal taxes on cocoa products adversely affected demand, the early removal of such taxes would no doubt be helpful for developing country exporters.
11. The representative of the Federal Republic of Germany repeated the view expressed at an earlier meeting of the Special Group that it was important not to introduce into fiscal policy, considerations pertaining to trade policy. With regard to the points in paragraph 33 of document SGTP/20, sub-paragraph (a) did not apply to the situation in his country. An attempt to introduce in this way a new guideline by paraphrasing paragraph 1 of Article XXXVII might also weaken the provisions of the General Agreement. Sub-paragraph (b) of the proposals were relevant to the extent that the Federal Republic of Germany had consumption taxes on coffee and tea. Studies had shown that the abolition of such taxes would result in developing countries receiving in the form of increased export receipts only an estimated 10 per cent of the revenue loss to the Federal Republic with little beneficial effect on consumption. With regard to harmonization of tax systems, this matter was currently under consideration in the European Economic Community. Concerning sub-paragraph (c), the Federal Republic of Germany did not envisage changing its system of indirect taxation at the present time or replacing it by other systems. In general, tropical products benefited from the reduced TVA rate of 5.5 per cent. In connexion with sub-paragraph (d), the Federal Republic of Germany had no objection to pursuing discussions on internal charges as they affect tropical products in the Special Group.
12. The representative of the Federal Republic of Germany indicated that for certain technical reasons pertaining to their relationship with coffee powder and beans, consideration was currently being given to a reduction in the consumption taxes imposed on coffee extracts and essences.
13. The representative of the United Kingdom outlined developments in regard to indirect taxation in his country in recent years. Under the present purchase tax system most food products, including tropical products with the exception of chocolate confectionery and sugar confectionery, were not subject to tax. It was the Government's intention to introduce a value-added tax system as from April 1973, to replace the existing purchase tax and the selective employment tax. Under the new system it is expected that food products not at present subject to purchase tax will also be exempt from the value-added tax.

14. As regards the question of his country's entry into the European Economic Community, the representative of the United Kingdom stated that his Government would take part in the programme of tax harmonization within the Community after entry. In this connexion his Government, which had considerable sympathy for the viewpoints expressed by developing countries, would bear in mind the proposals made in the Special Group in respect of tropical products. It could also agree to keep the four points contained in paragraph 33 of SGTP/20 under review although it could not agree to their being considered as a commitment.

15. The representative of Denmark indicated that the value-added tax imposed in his country at a uniform rate was non-discriminatory and did not act as a barrier to imports. While the increase in the level of the tax in Denmark might be regrettable, this had become necessary in order to generate more government revenue and also to reduce internal demand for balance-of-payments reasons. In the future consideration of internal charges, he agreed that it would be useful to keep in mind the proposals put forward by the developing countries.

16. The representative of the United States indicated that his Government considered it generally inappropriate to levy special selective taxes on products of interest to developing countries, but recognized the problems created for countries relying on broad-based consumption taxes if they attempted to exclude specific products. With regard to paragraph 33(a) of the proposals under discussion, his delegation agreed that tax changes should not result in new selective taxes on tropical products of interest to developing countries. However, when countries introduced a new general consumption tax it was not expected that tropical products would be specifically exempted because they were not previously taxed. Nevertheless, an acceptable arrangement might be to exempt all food products from internal taxes along the lines indicated by the representative of the United Kingdom. In any case, changes in consumption taxes should not, as a general rule, result in new barriers to trade. In connexion with sub-paragraph (b) his delegation could not agree that tropical products which were not domestically produced should necessarily for that reason be exempt from tax altogether. With regard to sub-paragraph (c) it was hoped that selective taxes could be reduced and eliminated where possible. He supported the proposal for a review in the Special Group of action by governments with respect to internal taxes and revenue duties on tropical products, with the proviso that primary responsibility for internal and border tax measures rested with the Working Party on Border Tax Adjustments.

17. The representative of the Commission of the European Communities, referring to the tax relaxation measures introduced by the member States in the past year, which delegates from developing countries had regarded as positive, emphasized that the fact that these measures had been introduced did not imply that the Community concurred in the principle according to which, in establishing fiscal measures, account should be taken of trade policy considerations. Nevertheless, the Community would not object to the problem being kept on the agenda of the Special Group on Trade in Tropical Products, thus ensuring on a pragmatic basis the regular review of the problem which the Indian representative had requested.

18. The representatives of two major tea exporting countries referred to a study by the UNCTAD/GATT International Trade Centre which had brought out that the consumption tax on tea in the Federal Republic of Germany represented about 16 per cent of the retail price for this commodity and was to be regarded as a factor inhibiting consumption. It was believed that the German tea market had considerable potential for expansion and an expensive programme of tea promotion was being introduced. The removal of the consumption tax would be helpful in expanding tea consumption in the Federal Republic. These representatives also believed that it should be possible for developed countries to devise appropriate methods for compensating for any loss of government revenue arising from the removal of consumption taxes on tropical beverages.

19. The representative of India welcomed the encouraging statements by representatives of certain developed countries, in particular the representative of the United Kingdom and expressed the hope that consideration would continue to be given to acceptance as firm guidelines for action, of the proposals submitted by his delegation at the last meeting of the Special Group. The representative of Nigeria emphasized his increasing concern at the position of cocoa products in the light of the information on recent developments provided by the FAO observer. His delegation hoped that, in future action on internal charges, developed countries would be guided by a practical concern for helping developing countries by stimulating demand for tropical products by all possible means rather than by a philosophy which insulates fiscal policy from any broader consideration.

New and improved forms of natural rubber

20. With respect to import duties on new and improved forms of natural rubber, the representatives of Japan and the EEC indicated the action that had been taken, with the result that their imports of these rubbers at present enjoyed duty-free entry into their respective markets. The representative of the United Kingdom said that new and improved forms of natural rubber were included in his country's generalized system of preferences offer. Before considering whether to remove tariffs permanently, his country needed to know the reaction of Commonwealth producers to such a proposal. The representative of the United States informed the Group that following a technical problem last year which had prevented the passage of legislation providing for duty-free entry for processed natural rubbers the administration had prepared a new Bill. It was now exploring the most expeditious way of securing prompt congressional action and expected that legislation would be reintroduced in the current session of Congress.

21. Representatives of rubber-exporting developing countries welcomed the action taken by certain developed countries to remove import duties on new and improved forms of natural rubber. They also appreciated the interest shown by the United States administration in seeking the early approval of legislation providing for duty-free entry into the United States. They suggested that as an immediate step pending implementation of the legislation, consideration might be given to the exemption of these forms of rubber from the temporary import surcharge.

Quantitative restrictions, import duties, and internal charges on vegetable oilseeds, oil and oilcake

22. The representatives of several developing countries noted that the problems confronting this group of products were clearly identified in the documentation prepared for the meeting of the Special Group. They pointed out that, with a few exceptions, little progress had been made in this area since the recommendations contained in the Programme of Action were adopted in 1963. The problem of tariff escalation continued to act as a barrier to trade and to frustrate attempts to diversify production and exports by the developing countries. Although certain proposals had been made earlier by the delegations of Nigeria and Ceylon, no positive action had resulted. Despite the many difficulties pointed out by developed countries, it was considered by the developing countries that positive measures could be taken on an ad hoc basis in respect of tropical vegetable oils and oilseeds. These representatives also supported the recommendations affecting oils and oilseeds which were contained in the preliminary report of the Group of Three.

23. The representative of the United Kingdom stated that his Government shared the concern of developing countries in this area. He informed the Group that his Government had been prepared to take action under the generalized system of preferences but had withdrawn its offer because in the absence of comparable offers by other donor countries the interests of its Commonwealth partners and also of domestic processors would have been adversely affected. His Government was ready to continue the search for a multilateral solution to the problems of international trade in these products.

24. The representative of the United States said that his Government believed that multilateral action for trade liberalization on a most-favoured-nation basis was the best approach to resolving the problems of trade in vegetable oils and oilseeds. Substantial liberalization would lower domestic prices and result in an increase in consumption which would provide the greatest benefit to the many efficient producers in developing countries. The United States was prepared to consider consulting in a proper forum with other developed countries to explore the possibility of taking concerted action to liberalize trade in vegetable oils on a most-favoured-nation basis. Pending such agreement as a long-term solution, his Government commended proposals for a standstill on fats and oils as a short-term solution and hoped other governments would agree to this measure.

25. The representative of the Commission of the European Communities observed that in the proposals presented by developing countries with respect to vegetable oilseeds and oils, too much importance was attached to customs duties as an element of protection. The real problems lay elsewhere: first of all, as could be seen from the table in document SGTF/21, page 2, the major share of international trade in oils and oilseeds was not held by the developing countries. Furthermore, Community imports of groundnut oil and palm oil, on which customs duties had been entirely eliminated with respect to the associated States and were still maintained vis-à-vis third developing countries, showed that while imports from the latter had increased between 1964 and 1970, over the same period there had been no increase in imports from the associated countries. Those two considerations gave grounds for doubting the advantage for developing countries of a general abolition of customs duties on oils. On several occasions the Community had drawn attention to the fact that the incidence of world market price fluctuations on the exports and earnings of developing countries was much greater than the incidence of customs duties. Accordingly, the intention of the Community was to conduct its fats and oils policy in such a way that there would be no distortion of competition in its market as between fats and vegetable oils of tropical origin. In a market with better stabilized world prices, questions pertaining to customs duties on oils could be re-examined.

26. The representative of Japan referred to the removal of import restrictions on certain vegetable oils and oilseeds which were outlined in SGTP/22 and Add.1. It was his Government's view that the action taken was consistent with Japan's continuing support for Part IV of GATT and that developing countries would derive considerable benefit from the liberalization measures. Replying to a question raised by a representative of a developing country, he also pointed out that import duties on crude oils and refined cottonseed oil had remained unchanged at ¥ 20 per kilogramme while the duty on other refined vegetable oils had reverted from the temporary rate to the basic rate.

27. While expressing disappointment that the developed countries, at the present time, showed little disposition towards taking the action which they believed possible in respect of tropical vegetable oils and oilseeds, and supporting the proposals made in this regard in the Preliminary Report of the Group of Three, the representatives of some developing countries welcomed the suggestions made by the representative of the United States. They noted that the standstill proposal had already been put forward for consideration and hoped that governments could now accept this as an interim measure. In the expectation that this could provide a basis for progress, they also expressed interest in the possibility of consultations among developed countries directed towards a liberalization of restrictions affecting oils and oilseeds.

Concluding remarks by Chairman

28. In summarizing the discussions that had taken place on internal charges and revenue duties, the Chairman stated that although it was clear that certain countries were not in a position to take a firm commitment in respect of the proposals made at the last meeting of the Special Group, developing countries could draw encouragement from the fact that these countries would be keeping the matter under review and would not neglect any practical opportunity for action that might arise. Furthermore, it was agreed that the matter could be kept on the agenda of the Special Group and taken up for discussion whenever the Group could usefully do so.

29. With regard to the problems of barriers to trade in vegetable oils and oilseeds, the Chairman observed that the representatives of developing countries had again forcefully drawn the attention of the Special Group to their difficulties. The proposal for a standstill had again been commended as an interim measure until more positive action to reduce barriers could be taken. An interesting suggestion had also been made with regard to the initiation of consultations among developed countries for a liberalization of restrictions in this area. It was to be hoped that the views and suggestions put forward would serve to stimulate further consideration of these problems by governments and appropriate GATT bodies.

ANNEX

INTERNAL CHARGES AND REVENUE DUTIES

Proposals Made by the Delegation of India and Supported
by Other Developing Countries - SGTP/20, paragraph 33

- (a) Where changes in tax systems had been made or were contemplated, tropical products which were exempted under the previous systems should continue to be exempted under any new system adopted (standstill provision of Part IV).
- (b) Where harmonization of tax systems was contemplated, tropical products which were not domestically produced should be exempted from tax altogether. If, in the process of harmonization, it was felt not possible to grant total exemption, for compelling and legal reasons, then the tax should be imposed at the lowest possible level existing at the time of harmonization (observation of Article XXXVII:1(c)).
- (c) Selective taxes should be eliminated and not be replaced by general consumption taxes especially in the process of changeover to TVA or other types of taxation.
- (d) Provision should be made for a regular review of developments in the Special Group on Trade in Tropical Products.