

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## WORKING PARTY ON THE ASSOCIATION OF OVERSEAS TERRITORIES WITH THE EUROPEAN ECONOMIC COMMUNITY

### Report to the Intersessional Committee<sup>1</sup>

This Report, submitted to the Intersessional Committee for consideration at the meeting commencing on 14 April 1958, contains the following Chapters and Annexes:

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The Reports on the commodity trade studies by the Working Party are being distributed as addenda to this document:

Cocoa	L/805/Add.1	Oilseeds	L/805/Add.7
Coffee	/Add.2	Cotton	/Add.8
Tea	/Add.3	Hard fibres	/Add.9
Bananas	/Add.4	Wood	/Add.10
Sugar	/Add.5	Aluminium	/Add.11
Tobacco	/Add.6	Lead	/Add.12

<sup>1</sup>This report was approved in principle by the Working Party on 28 March. The representatives of the Six, however, have given their agreement with certain reservations and have requested an opportunity to submit some amendments to their statements herein. Moreover, the report lacks two statements to be furnished by the Six, viz: their replies to some of the arguments put forward by other members of the Working Party (Section (e) of Chapter III) and their summary of views (Annex B). These will be distributed later.

It has been agreed that the amendments submitted, together with the statements to be inserted, will be examined by the Working Party on 10 April. A revised text of the Report will be issued to the Intersessional Committee at the commencement of its meeting on 14 April.



## I. INTRODUCTION

1. The Working Party was appointed by the Intersessional Committee at its meeting on 30 November 1957 (IC/SR.36) "to study the problems which the association of overseas countries and territories with the European Economic Community raises for the trade of other contracting parties to the General Agreement". Those problems were among those examined by Sub-Group D of the Committee on the Rome Treaty, appointed by the CONTRACTING PARTIES at their Twelfth Session in October/November 1957, and on which the Sub-Group reported in Section C of its Report to the CONTRACTING PARTIES (L/778, pages 31 to 33).

2. The Working Party had the same Chairman Mr. T. Hagen of Sweden) and the same membership as Sub-Group D, viz:

Brazil	Ghana	Pakistan
Ceylon	Greece	Rhodesia and Nyasaland
Chile	India	United Kingdom
Dominican Republic	Indonesia	United States

and two of the Six Member States of the European Economic Community - France and the Netherlands.

3. As recommended by the Sub-Group, the CONTRACTING PARTIES decided, in establishing intersessional machinery for the further examination of those aspects of the Treaty which relate to the association of overseas territories, that priority should be given to the issues raised in Section C of the Sub-Group's Report and, in particular, to the examination of the effects of such association on the trade in selected products of other contracting parties. It was also recommended by the Sub-Group that priority should be given to an examination of the trade in products exported to the markets of the Community by the overseas territories.

4. Accordingly, the Working Party accepted as its first task an examination of the trade in the commodities mentioned by Sub-Group D as being of special concern to contracting parties, namely, cocoa, coffee, tea, bananas, sugar, tobacco, oilseeds, hard fibres and wood. In the short time available the Working Party has also been able to examine the trade in cotton, aluminium and lead. The trade in these twelve products was examined by the Working Party at three meetings: from 5 to 20 February, from 26 February to 7 March, and from 17 to 28 March. The Working Party has approved its Reports on Cocoa, Coffee, Tea, Bananas and Sugar. The Working Party will meet again on 10 to 12 April in order to finalize its reports on the other commodities.

5. The Working Party divided its consideration of each commodity into three parts:

(a) An examination of the factual position of the commodity under the Treaty, taking into account: the import duties of the Six (the legal rates as well as the rates actually applied on 1 January 1957); the level of the common tariff and the rate at which that level will be reached by the Six; the rate at which tariffs will be reduced to zero for imports from the associated territories; the position with regard to fiscal duties and quota arrangements; and the position of the commodity under the agricultural provisions of the Treaty and Annex II.

- (b) An analysis of the pattern of world trade, taking into account exports from the associated territories and from other suppliers to the Six, and the supplies available in those territories elsewhere.
- (c) A discussion of short-term effects of the provisions of the Treaty on patterns of trade and price levels, and also of the probable long-term effects, due account being taken of the production programme of individual countries and of foreseeable trends in world consumption.

The report on each commodity, therefore, is similarly divided into three parts.

6. The Member States provided detailed information on the actual position under the Treaty of Rome in respect of each commodity. The Working Party wish to record their thanks for the great efforts made to supply this information at short notice and for the further explanations given by the representatives of the Six during the discussions. The secretariat, with the helpful collaboration of the Food and Agriculture Organization, collected full statistics of the trade in the commodities concerned both on a world basis and, in particular, with relation to the trade of the A.O.T's and the Six.<sup>1</sup> This detailed statistical information had never been brought together before and it was a great help to the Working Party to have this information available during its deliberations. Members of the Working Party and observer-representatives of other contracting parties also provided data relating to the commodities under examination.

7. Sub-Group D recommended that the study "should relate to the possible effects of the provisions of the Treaty regarding the overseas territories in respect of:

- (i) products exported to the Six from the overseas territories;
- (ii) products imported into the overseas territories from the Six;  
and
- (iii) products involved in trade between the overseas territories.

Thus far the Working Party has undertaken only a study of selected products exported from the A.O.T's to the Six. Time has not permitted a commencement of the studies proposed under (ii) and (iii).

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<sup>1</sup>For the sake of brevity the Associated Overseas Territories will be referred to in this Report as "the A.O.T's" and the Member States of the European Economic Community as "the Six".

8. Further, it was the intention of the Intersessional Committee that the studies of the Working Party should not be limited to the products mentioned by Sub-Group D, and that all contracting parties should be free to propose other products for examination. Contracting parties were invited to name the products of special interest to them and to submit relevant data. In accordance with this procedure a great number of products have been suggested, of which the following have been selected by the Working Party for priority treatment when the opportunity occurs:

<u>Products proposed for Study</u>	<u>Proposed by</u>	<u>Supporting Documents</u>
Vegetable tanning materials and extracts	South Africa	IC/WP1/25
Rubber	Ceylon	/24
Hides and skins	United Kingdom	/32
Pyrethrum	United Kingdom	/30
Spices	United Kingdom	/21, 22 and 27
Pineapples	South Africa and United Kingdom	/26 and 29
Peas and beans	United Kingdom	/28
Cassava	United Kingdom	/23
Copper	Chile and Rhodesia and Nyasaland	-
Zinc	Australia	-

9. Some members expressed the wish that the Working Party should meet again to study the effects on a further group of products and to consider the other trade questions referred to in paragraph 7. above.

## II. LEGAL ISSUES

10. During the course of the discussions reference was made to certain points of a legal nature which the Working Party recognized as being outside its terms of reference and which would have to be resolved by the CONTRACTING PARTIES. The following sets out these legal issues together with relevant views advanced by the representatives of the Six and by other members in the course of the discussions.

### The Treaty of Rome and the General Agreement on Tariffs and Trade

11. The representatives of the Six reiterated the reservations made by their Governments at the Twelfth Session: The fact that they had agreed to the studies undertaken by the Working Party could not involve for the Six any obligations additional to those under the General Agreement; in other words, they did not consider themselves in any way bound by the conclusions which might be drawn from those studies; in the event that the studies might bring to light any disadvantages resulting for any contracting party from the formation of a free trade area between the associated overseas countries and territories and the Community, the Six could not agree that there was any obligation on their part to grant compensatory concessions.

12. Most members of the Working Party,<sup>1</sup> however, did not consider that the association of overseas territories, in the manner proposed, would constitute a free trade area in conformity with Article XXIV of the General Agreement. In their view a new preferential area, contrary to Article I of GATT, was being created.

### The Territories the Association of which is under consideration

13. Most members of the Working Party considered that production in French Overseas Departments in the Indian Ocean (Réunion) and in the West Indies (Guadeloupe and Martinique) should be taken into account in examining the trade in sugar and bananas. Some members put forward legal arguments (Article I and Annex B of the General Agreement) for doing so. In any case this was necessary in order to arrive at a fair assessment of the overall economic effects which the association of overseas countries and territories with the EEC will have on third countries.

14. The representatives of the Six could not agree that the French Overseas Departments should be included in an examination concerning overseas territories. They pointed out that the Overseas Departments did not come under Article 227 which governed the association of the countries and territories listed in the relevant annex to the Treaty. Further, they could not agree that there was any valid argument under GATT for not treating the Overseas Departments as part of the Community.

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<sup>1</sup>  
The expression "most members of the Working Party", as used in this Report includes the representatives of Brazil, Ceylon, Chile, Dominican Republic, Ghana, India, Indonesia, Pakistan, Rhodesia and Nyasaland, and the United Kingdom, and signifies that they adhere to the views expressed.

### III. ECONOMIC ISSUES

15. During the examination of the effects of the association of overseas territories on the trade of other contracting parties in particular commodities, and also in discussions of a general character relating to that examination, the Working Party discussed a number of issues which, in the opinion of various members, should be elaborated in this general part of the Working Party's Report.

16. Most members of the Working Party felt that the examination of repercussions on trade of third countries should be limited to effects which are clearly consequential upon the association of the overseas territories and that possible increases in demand due to other causes were not strictly relevant to the task assigned to the Working Party. Accordingly, these members submitted statements which are incorporated, together with the views of the representatives of the Six, in section (a) below under the title "The Scope of the Discussions". These members also considered that this general part of the Working Party's Report should set out in abstract terms, and without repeating the arguments contained in the Reports on particular commodities, the effects, as they see them, of the new tariff regime applicable to the trade of the Associated Overseas Territories. Accordingly, sections (b), (c) and (d) below, on the effects on prices, demand, production and world trade, are also based upon statements submitted by them. The representatives of the Six, on the other hand, could not altogether agree with the views put forward by other members of the Working Party and, therefore, submitted replies to some of the views set out in sections (b) to (d); these replies are incorporated in section (e).

17. In addition, the representatives of the Six submitted, for inclusion in this chapter of the Report, a statement of their disagreement with some of the methods followed by the Working Party in its analysis of the effects on trade in the various commodities; this will be found in section (f).

#### (a) The Scope of the Discussions

18. Most members of the Working Party considered that, in accordance with the terms of reference of the Working Party, there should first be an analysis of the effects on the trade of particular commodities of the association of overseas territories with the Community, the commodities being chosen as being important either in the trade of the A.O.T's or in the trade of particular third countries. It was also fully in accordance with the terms of reference that this should be followed by a pulling together of the conclusions in the reports on particular commodities in order to arrive at an overall picture of the problems created for the trade of third countries. They suggested that the problems of particular commodities should be systematically examined as follows:

- (i) The effects of the Treaty arrangements on prices in the Community and in the A.O.T's;
- (ii) The consequential effects on demand in the Community;
- (iii) The effects on production in the A.O.T's;

- (iv) The consequential effects on patterns of trade with the Community; and
- (v) The effects on world markets.

19. Most members of the Working Party, while agreeing that the present and future trend of world trade in each commodity should be noted as relevant background data, considered that the Working Party should concentrate its attention on the effects of the association of the overseas territories. They considered that it was possible, in carrying out the task of economic analysis assigned to the Working Party, to isolate the influence of such association on the trade of each commodity from other factors influencing market trends and that, in fact, these other factors were not really relevant to the studies undertaken, as such factors would exert their influence independently of the decision to associate the overseas territories with the Economic Community.

20. The association of overseas territories had been presented to the CONTRACTING PARTIES as complying with the definition of a free-trade area under Article XXIV and as separate from the Common Market of the Six. It could, therefore, only be such increases in consumption as might arise from the association of the overseas territories that could be taken into account during any consideration, whether legal or economic, of this question in the GATT. In any case they could not accept the general proposition that third countries had no cause for concern if the fall in the sales of their products in the Six resulting from the preferential treatment of the products of the overseas territories were offset by increased demand consequent on the establishment of the Common Market. It was fundamental to the whole philosophy of GATT that all countries should be allowed to participate in any growth there might be in world trade. To allow third countries merely to maintain their existing absolute level of sales of the products under consideration to the Six while denying them opportunities to participate in any growth there might be in demand, would clearly be contrary to that philosophy.

21. Similarly, they did not consider that the possibility of increases in consumption in the rest of the world could be regarded as a factor helping to solve the problems created for the trade of third countries by the association of the overseas territories. These increases in consumption, if and when they occurred, would arise irrespective of the signature of the Treaty of Rome. In any case all producers wherever located, including the producers in the A.O.T's themselves, would have their share in the resulting increase in world markets. On the other hand, in the long term, a great part of the rising consumption was expected to occur in the USSR, China and other countries whose trading methods were not bound by the rules of the GATT. Sales in such markets would in any case be uncertain since they would be dependent from day to day on the whims of monopoly buyers.

22. The steady increase of population which should bring about increased world consumption was a factor operating in producing countries as well and required them to expand their own exports progressively in order to maintain, let alone increase, their standards of living. World producers had already based their production plans on the assumption that there would be such increases in world consumption so that a fall in their share of the demand for their export products in the Community must force a cutback on such production plans.

23. The representatives of the Six, on the other hand, interpreted the terms of reference to mean that the working Party was under an obligation to take into account developments in world production and consumption, if only from the point of view of their long-term effects. They noted that the United Kingdom delegation, which did not deny this, had observed that the English text of the terms of reference clearly indicated that "due account" was to be taken of such factors and that it had accepted this wording at the Twelfth Session only because it felt that by considering the influence of these factors to be nil the working Party would be attributing to them their due influence. Further, they pointed out that the examination of the effects of the association of overseas territories should cover the effects likely to be felt by all contracting parties to GATT and not only by the under-developed countries.

24. They also noted that the terms of reference of the working Party had been interpreted as involving a study on an individual commodity basis, the commodities to be examined being selected both for the importance of the trade and for the degree of probability that the Treaty of Rome would have repercussions on this trade. Finally, they recalled that the terms of reference involved only an analysis of the facts and not an attempt to seek solutions to any problems which might be found to exist.

(b) Effects of Differential Tariffs on Prices and Demand in the Community and the A.O.T's

25. Most members of the Working Party considered that, in order to assess the effects on external trade, it was first necessary to determine the consequences of the elimination of duties by the Member States for imports from the A.O.T's on trade and prices within the Community and the A.O.T's. They considered that this issue should be examined in the light of the fact that by the end of the transitional period the Community would have established substantial tariffs for many of the products examined on imports from third countries while admitting the products of the A.O.T's duty-free, thus creating substantial preferential margins in favour of those territories. Moreover, for most of the commodities examined the A.O.T's were able to supply a considerable part of the markets of the Six, though in no case did the production of the A.O.T's fully meet the market requirements of the Six as a whole.

26. They considered that the effect of these preferential arrangements would be, firstly, to divert purchases by the Community from third countries to the A.O.T's, and secondly, to increase the returns to producers in the A.O.T's above those to producers in non-preferential markets by the amount of the preferential margin. Under conditions of free competition these results were inevitable, since the importers in the Six would be faced by a choice of supplies, part of which would pay the tariff and part of which would not, and competition would quickly bring the prices of these two sources to the importers into line. They considered that existing trade channels would not long withstand the price attractiveness of supplies from the preferential market and that in the case of some commodities where the difference in duty was substantial the switch to A.O.T. supplies might be completed by the end of the first stage. Moreover, since, for all the commodities considered, the combined market of the Six was at present substantially greater than the production of the A.O.T's, the duty-free entry of that production would not affect prices in the Community which would normally exceed world market prices by the amount of the tariff.

27. For those commodities in which duty-free quotas had already been established (bananas and coffee), or in which such quotas might be established by the Commission in the future, most members of the Working Party felt that the analysis was more complicated, as only actual experience of the tariff quotas would show whether they would prevent the price premiums referred to above being fully established. In any case, the tariff quotas so far fixed were relatively small in relation to the whole import trade of the Community, were on a decreasing scale and might not continue after the end of the transition period. Their ultimate effect on price and trade could, therefore, only be marginal unless they were substantially increased and made permanent.

28. For these reasons; most members of the working Party considered that, in the Community, the prices of most of the commodities examined would be higher than previous prices, and this must tend to reduce consumption. The increase in prices of some commodities might be substantial. Moreover, where the new Common Market tariffs were less than existing duties, there would be a strong temptation for Member States to implement those provisions of the Treaty (Article 17(3)) that permit the application of compensatory internal taxes. These taxes might well offset the reductions in the tariffs and thus remove the consequent stimulus to consumption that might otherwise be expected.

(c) Effects of the New Tariff Régime on Production

29. Most members of the working Party held the view that the duty differentials would stimulate production in the A.O.T's. They noted that production in these territories of the commodities examined had risen considerably during the past decade and that for some commodities, at least, this strong upward trend was continuing. It appeared to them inevitable that the additional production which was to be expected in the next few years would accentuate the dislocation of trade arising from the differential tariffs.

30. In many commodities the French A.O.T's were already producing or were on the point of producing more than France could consume. Benelux had always been a small market for the Belgian A.O.T's. Access to the whole Common Market on preferential items would, however, radically alter the situation and would act as a powerful new stimulus towards increased production in the A.O.T's. A guarantee of a large market was always the greatest stimulus of all towards increased production. Moreover, there was ample evidence that the supply of land, labour and capital (coupled with modern agricultural techniques) would be sufficient to yield substantial further increases in production in the A.O.T's. They believed that the representatives of the Six had failed to realize the powerful effect that this new stimulus would have on production.

(d) Effects of the new Tariff Régime on World Markets

31. Most members of the Working Party considered that importers in the Member States of the Community would give priority in their purchases to the products of the A.O.T's enjoying the new preferential tariff. This would cause diversion of trade from third country suppliers of those commodities to the suppliers in the A.O.T's, thus disrupting traditional trade patterns. As production in the A.O.T's grew during the coming years this diversion of trade would inevitably become more serious. In the case of some commodities the tariff preferences would be instrumental in causing a shift in consumer preference

to the particular grades or varieties produced in the A.O.T's and would lead to a diversion of trade away from the varieties produced by third countries.

32. Further, they considered that the new tariff preferences would force third countries to seek markets elsewhere for a considerable part of their present exports to the Six. This accretion of supplies in markets outside the Six would tend to create an imbalance between supply and demand in such markets with a consequent downward pressure on world prices. In a large number of the commodities considered wide fluctuations in price could be caused by relatively small excesses of supply or demand. At the present moment, moreover, world markets for many of these commodities were either in a sensitive state of balance or actually depressed and were likely to continue so. In such a situation the anticipated additional production of the A.O.T's could have an effect on world prices proportionately much greater than the percentage increase in world production they would represent. This depression of world prices would affect all third country exporters whether or not they sold to the Six.

33. Regardless of whether the world market moved up or down, due to other factors, this depressing influence would appreciably reduce the returns of third countries. Since many countries and territories represented in the GATT were heavily dependent on exports of either a single one or a limited range of these primary commodities, the adverse effects of an appreciable decline in world prices on their under-developed economies would be most serious. Increases in consumption in other parts of the world, such as Eastern Europe, could not be regarded as any solution to the problems thus created for their external trade.

34. Moreover, since trade in these commodities formed an appreciable part of the total of world trade in primary products the cumulative effect of such declines in price and/or sale of the individual commodities would have a significant effect on world trade as a whole, leading to substantial reductions in demand for other primary products not produced in the A.O.T's and for manufactured products. This would, in turn, affect the exports of industrialized countries, including the Six themselves.

(e) Replies by the Representatives of the Member States to some of the Arguments in (b) to (d) above

35. ....

[The text of this section will be issued later.]

(f) The analytical Methods followed by the Working Party

36. The representatives of the Six considered that the attempt to assess at the present time, i.e. in February - March 1958, the effects of the association of overseas territories with the Economic Community, was an extremely complex task involving forecasts of such a highly hypothetical nature that they should be formulated with the greatest caution. Indeed, depending upon whether one dealt with the short or long-term effects of measures taken gradually during a period beginning on 1 January 1958 and extending over a period of twelve or fifteen years, the task involved a whole series of assumptions such as the short and long-term effects of measures at present expected to be taken and the long-term effects of measures to be taken fifteen years from now, including hypotheses relating to the situation existing in, say, 1980.

37. In dealing with these various assumptions, an estimate must be made of the influence of the tariffs and quotas among other things, and of the various measures which the Community might institute within the framework of its common commercial or economic policy. It was hardly necessary to stress that for a number of the commodities under examination, the common tariff rates had not been fixed, not to mention the treatment which might be accorded to such products as a result of action to be taken by the Community institutions under the various provisions of the Treaty.

38. Furthermore, in order to be in a position to attribute to the specific influence of the Treaty of Rome, and more particularly to the association of the overseas territories, certain developments in external trade in the commodities concerned, it would normally be necessary to forecast the evolution of the trade concerned and also to isolate from such evolution those aspects which seemed to be attributable specifically to the association of the overseas territories.

39. The Working Party had not adopted this process of investigation although it was a scientific sine qua non. It was obvious that, notwithstanding the need to use this method and the obligation arising from its terms of reference, the Committee had very rarely attempted to forecast the evolution of world trade between now and 1980. Obviously, such an attempt would have been difficult, but if the intention was to ignore this prerequisite as regards the method to be followed, then by the same token it became impossible to conduct a scientific analysis of the specific influence of the Treaty of Rome on commercial exchanges whose development the Working Party did not attempt to trace.

40. The representatives of the Six, therefore, wished to emphasize that, in view of the fact that the complexity of the factors on which actual developments depended had not been given their due weight, the study which the Working Party was to make had become merely an assertion that certain provisions of the Treaty of Rome, considered in isolation from their economic context, "would inevitably" have certain effects, etc. Thus, no attempt had been made to analyse the scientifically probable effects, and it had only been reaffirmed that certain provisions of the Treaty of Rome (relating to tariffs and quotas) were considered to be discriminatory, without there being any real effort to assess their specific effect, and thus without any contribution being made to the study of the problem.

41. The fact that economic analysis had been replaced as far as possible by a set of assumptions (there was a "preference", therefore competition would be affected, etc.,) was made even more apparent by the efforts of several representatives to take no account of the economic realities which affected the scope of the association of the overseas territories; these representatives had tried to picture this association operating in a mechanical and sovereign manner in a world from which many other economic influences would in some strange way be eliminated, or in which their effects would be minimized, for the purposes of this exercise, despite the irrefutable fact that all such influences were inter-related.

42. The first instance of this was the attempt to isolate the association of the overseas territories from the rest of the Treaty of Rome, and in particular from the European Common Market. Although many references had been made to provisions of the Treaty of Rome which were not included in Part Four of that instrument, some representatives wished to consider this association independently from the rest of the Treaty in order to forestall or refute the argument that the increased demand which would result from the establishment of the Common Market would have beneficial effects on the export trade of third countries. In actual fact it was clear that the Treaty of Rome was a single legal instrument; no part of it could be dissociated from the rest, and it could only be judged as a whole. Any such approach, based on the assumption that the two institutions (the Common Market and the association of the overseas countries and territories) could exist in isolation, was a clear indication of the abstract and unrealistic spirit in which this study had been made and which had vitiated its scope.

43. Similarly, the outlook for world consumption and production had been largely omitted from the study. Only the representatives of the Six supplied information concerning their production plans, although the terms of reference as well as the obvious requirements of analysis required that the various production plans for the whole world should be considered before an attempt was made to judge either the evolution of trade or, a fortiori, the possible effects on it of the association of overseas territories.

44. Furthermore, the representative of the Six wished to stress that the forecasts made were thrown out of balance by the fact that during the discussions the influence of certain important factors was minimized by some representatives. The most important of these factors were the following:

- (i) The influence of traditional factors in the orientation of trade patterns, which prevented any automatic, immediate and mechanical re-orientation of trade patterns as a direct result of purely tariff or quota considerations.
- (ii) The increase in consumption in the territories of the Common Market countries. Some representatives, doubting whether they had succeeded in their attempt to have these considerations set aside as being irrelevant to the discussion, had asserted that it was in any case doubtful whether the creation of the Common Market would result in an increase in the standard of living of the peoples concerned and hence in an increase in demand in the Member countries.

To ensure the economic development and to improve the standards of living of the peoples concerned was a basic concept of the European Common Market, and this same aim had inspired other similar attempts in various parts of the world, and in Latin America, in particular. The prospects for development which resulted from the various advantages offered by large economic units seemed to economists so clearly established that there was no need to undertake to prove them here. It would suffice to say that those who doubted the benefits to be gained from integrated economic units were expressing views which were original and paradoxical, but which were contrary to the conclusions generally accepted by science, and moreover, contrary to the philosophy of GATT, for it was only in that light that Article XXIV had any significance.

- (iii) As regards the increase in consumption in the rest of the world (a factor which the Working Party was obliged to take into account, both by its terms of reference and by the method of economic analysis), the representatives of the Six considered that some delegations had systematically given estimates which were too low in order to bolster up a deliberately pessimistic description of the trade of third countries.
- (iv) Uncertainty of estimates due to interdependence of trade in different commodities which might in certain circumstances be substituted for each other. The Working Party has scarcely touched on the interplay of measures dealing with groups of commodities which had certain common characteristics which made them comparable, e.g. oils and fats, the tea-coffee-cocoa group, fruit (bananas, apples, oranges, etc.). In point of fact the treatment of these commodities under the Treaty of Rome (tariff rates, etc.) might not be fully known in each and every case, and the complexity of the problem was a challenge to the resources of science. Here again, however, the representatives of the Six felt that the simplification of the work was obtained in an arbitrary manner as a result of which the examination did not have the value of an objective and scientific assessment.
- (v) Action to be taken by the EEC with the object of stabilizing the prices of primary products and in general the organization of their international trade. The representatives of the Six felt, as some other representatives had also pointed out, that the A.O.T's had no reason to bring about a fall in prices and a collapse of the market by excessive increases in their production of primary commodities, since this would be ruinous for them as well as for third countries. It was therefore evident that the European Community would contribute to the organization of world trade in these commodities. If efforts in this direction were crowned with success, as a result of the Community supporting the countries which were seeking to organize trade in primary products, it was clear that the implementation of the Treaty of Rome (and, in particular, of

the provisions which governed the association of the Overseas territories) would have brought to third countries major benefits which would more than offset every prejudice which they had said they apprehended as a result of the implementation of the Treaty (though there was no evidence as to what the prejudice to be suffered would consist of). The representatives of the Six considered that this aspect of the effects of the association of the O.T's had not been fully appreciated by the Working Party. They wished to stress that the influence exercised by one country, or one group of countries, on trade in a given commodity did not depend solely on the use of tariffs and quotas; it depended just as much on willingness, or unwillingness, to cooperate in international efforts at organizing trade in the commodity. It was therefore not possible to omit the effects of the association of the O.T's from this point of view.

- (vi) The physical, climatic and financial problems which affected the development of production in the A.O.T's had been considerably under-estimated by some representatives. In their view, the mere existence in the Treaty of provisions applicable to overseas territories automatically resolved the difficulties arising from availability of suitable land, of capital for investment, etc. This was one more example of the unrealistic, theoretical and a priori approach of these representatives.

45. The representatives of the Six were prepared to admit that an accurate assessment of the impact of these various factors would be an extremely difficult task for the Working Party, would not allow any hasty oversimplification and would call for restraint and caution in drawing conclusions. They maintained none-the-less that certain efforts, such as those made by FAO, showed that this method was not altogether impracticable for an international organization, and they failed to see why a group of government representatives analysing an economic problem should feel that they could do so without a scientific, strict and objective method of analysis.

46. Most members of the Working Party considered that the terms of reference given to the Working Party by the CONTRACTING PARTIES presupposed that an analysis of the effects of the association of the overseas territories on the trade of third countries was possible. They believed that the methods of analysis they had adopted in their argumentation were proper in the circumstances and that the overall picture which had emerged would not be basically altered by further analysis, but only clarified in certain particulars.

IV. GENERAL ISSUES RELATING TO THE TREATY OF ROME

(a) The Calculation of the Arithmetical Average

47. Most members of the Working Party noted that where the common tariff was based on the arithmetical average of the applied tariffs the calculation did not take account of the size of the respective imports of the various members of the Six from third countries. It was generally true that the largest importers of the Six had the lowest tariffs so that an unweighted average had produced a significantly higher common tariff and hence a higher preference for the A.O.T.'s than would have been produced by the calculation of a weighted average. Similarly, the theoretical duties given in List A, which were to be used in the arithmetical average calculation, appeared to be inserted in some cases (e.g. yarn of coconut, tapioca and sago) specifically to ensure a higher preference for the A.O.T. production of these commodities.

48. The representatives of the Six argued that, under the provisions of the General Agreement, countries were at liberty to choose between the simple arithmetical average and the weighted average for the purpose of establishing a common tariff. Furthermore, the studies which had been conducted indicated that the weighted average method could, in the case of certain products, result in common rates higher than those which the arithmetic average produce.

(b) Fiscal Duties

49. The Working Party noted the provisions of Articles 17 and 22 of the Treaty of Rome which relate to customs duties of a fiscal nature. Under these articles, Member States could inform the Commission which of their customs duties were of a fiscal nature and the Commission could decide to what extent such duties should be taken into account in determining the arithmetical average for arriving at the Common Tariff on items not in Lists F and G. This could lower the duty on certain products considered by the Working Party, e.g. tea. The Commission could not make allowance for the fiscal nature of a particular duty in calculating the average, unless it were so notified by a Member State. The Commission could take no initiative in this respect. Moreover, it was entirely within its competence to decide what part of such duties should be included in the calculation of the average. The Commission was required to "take due account of the protective aspect of such duties", but it was not known how it would interpret this instruction. It was also noted that, under Article 22, a Member State could challenge the decision of the Commission and have the rate fixed by negotiation. (The representatives of the Six stated that, as far as they knew this could only mean that, at worst, the duty would be restored to the arithmetical average level.) There was no possibility of the rates on items in List F being reduced by this procedure since the

rates were fixed. Nevertheless, it was still open to Member States to notify the Commission that the duties levied on an item in List F were of a fiscal nature and to convert such duties into internal taxes in accordance with Article 17(3). In such a case the Member State concerned would levy both the Common Market tariff on the item and an internal fiscal tax.

50. The representatives of the Six observed that as far as internal taxes were concerned each Member State had to take into account not only budget or revenue considerations but also economic and social factors. These latter factors made it impossible to go beyond certain limits in order to avoid prejudicial price increases. Furthermore, if one considered that the establishment of a customs union involved the elimination of customs duties, then the necessary corollary was a loss of revenue which should in principle be offset through the fiscal and budget policy of the Member States taken as a whole. There was no reason to presume that such compensation would be sought more specifically through an increase in charges levied on tropical products. Lastly, the representatives of the Six observed that under Article IV (revised) of the General Agreement the Member States of the Community enjoyed the same freedom of action as other contracting parties in the field of internal taxes provided they were applied in a non-discriminatory way to both imported and domestic products.

(c) The Use of Applied or Legal Rates in the Tariff Calculations

51. Members of the Working Party pointed out that for certain List F items, e.g. cocoa, tobacco and sugar, the common tariff was well above the average of the tariff rates in effect on 1 January 1957. The representatives of the Six stressed that in general the common tariff rates were lower than the arithmetical average of the legal rates. The legal rates were the only ones that were to be taken into account, considering, on the one hand, that any suspension or reduction was of a provisional nature and might therefore be rescinded at any time by unilateral action and, on the other hand, that GATT tariff negotiations were conducted on the basis of legal rates. Other members of the Working Party said, however, that the effective rates had been in operation during the whole post-war period and definite patterns of trade had grown up on that basis.

52. So far as the calculation of the arithmetical average was concerned, the representatives of the Six argued that they would have been justified in using legal rates throughout in calculating the common tariff, so that they had gone beyond their obligations under the GATT in using the applied rates under the terms of Article 19 of the Treaty in arriving at the arithmetical average. Other members of the Working Party said that whether effective or legal rates should be used for determining the common tariff was a legal issue under the GATT which was still unresolved. However,

apart from this, it seemed to them that the use of legal rates, rather than the applied rates, in determining the duties on items such as cocoa, coffee, etc., could only have been either to raise more revenue or to give an even greater margin of preference for the protection of the A.O.T's. Since revenue could always be safeguarded by introducing internal taxes it was clear to them that the object was to increase the preferential margin.

53. The representatives of the Six further observed that temporary suspensions or reductions of duty had been introduced on an individual basis, in each of the Member States, on economic or social grounds. Any government might take similar action and it was not to be excluded that the Community itself might be led to take such measures within the framework of its common policy.

(d) Duty-free quotas

54. Attention was drawn by members of the Working Party to the possibilities inherent in Article 25 of the Treaty for creating new duty-free or reduced-duty quotas. Most of the commodities discussed by the Working Party were covered by paragraph 3 of Article 25 which reserved wholly to the Commission the power to authorize Member States to suspend duties.

55. Most members of the Working Party considered that even if it were to be very much in the interest of a particular Member State to have a duty-free quota on a particular commodity in Annex II, there was no guarantee that the Commission would grant it. Moreover, the proviso to the Article "that no serious disturbance in the market of the products concerned may result therefrom" might well be used as an argument against granting special tariff quotas once the A.O.T's had built up their trade with the Community. A substantial use of such quotas would, if effective, destroy the value of the preferential margin granted to the A.O.T's in which case there would have been no point in having introduced a preferential margin on behalf of the A.O.T's in the first place. In their view, therefore, it was by no means certain that duty-free quotas would be introduced and maintained on a sufficient scale to preserve present patterns of trade indefinitely.

56. The Working Party noted the undertaking of the Six that they would conform to Article XIII of the GATT in their administration of any duty-free quotas. This was a matter to which considerable importance should be attached.

57. The representatives of the Six said they were at present unable to give detailed information on the way in which the quotas would be administered by the Member States. The quotas provided for in the Protocols annexed to the Treaty served the dual purpose of keeping down prices on

the domestic market of the countries granting such quotas and of maintaining existing trade channels as far as possible, taking into account the common interests of exporters and importers. They stressed that under Article 25 of the Treaty of Rome the institutions of the Community were empowered to grant tariff quotas at a reduced rate of duty or duty-free for products contained in certain lists annexed to the Treaty. Such quotas were to be granted where a shortage of supplies within the Community or a change in sources of supply was of such a nature as to entail harmful consequences for the processing industries of a Member State. This was an indication that traditional channels of supplies would be largely maintained.

58. Article 25(3) provided that, in respect of the products listed in Annex II, tariff quotas at a reduced rate of duty or duty-free might also be authorized, so that no serious disturbance in the market of the products concerned might result therefrom. The Commission was empowered to make the relevant determinations in this respect.

(e) Tropical Items appearing in Lists F and G

59. Attention was drawn to the fact that a substantial number of tropical products was included in Lists F and G. So far as List F was concerned, most members of the Working Party felt that the fact that the drafters of the Treaty had spent time deciding on the level of the common tariff for tropical items, not produced within the Community, could only be explained by the assumption that it was intended to create a substantial preference in these items on behalf of the A.O.T's. The same point arose in connexion with the inclusion of tropical commodities in Annex II of the Treaty (see section (i) below). And so far as List G was concerned it seemed possible that in certain cases some Member States were not satisfied with the duty which would arise by calculating the arithmetical average. This again implied that those Member States desired a higher duty in order to provide an effective preference for the A.O.T's. There was also the possibility of adding further items to List G, the implications of which could not be assessed.

60. They also pointed out that List G contained references to a number of semi-manufactured products from tropical items, e.g. cocoa butter, cocoa paste, chocolate, coffee extracts, vegetable oils, etc. In general, these semi-manufactured items could be produced in due course in the A.O.T's. Their inclusion in List G might indicate, therefore, that Member States had in mind the possibility that a preference might be introduced for these items which would stimulate the development of processing industries in the A.O.T's and thus would be even more effective in its incidence than the duty on the raw materials themselves. The general trend towards the local processing of primary products would thus be slowed down in third countries, but encouraged in the A.O.T's, and existing trade patterns

would be further dislocated. Furthermore, the economic effects of the duties so far fixed for the raw products could not be evaluated fully until the duties to be levied on their semi-processed derivatives in List G were determined.

61. Referring to those commodities under consideration and for which rates of duty were given in List F, the representatives of the Six pointed out that these rates had been fixed at a level below that which would have been produced by the arithmetical average of the legal tariffs. The reasons which had led to the inclusion of certain products in List G were of an economic nature. There were no grounds for presuming that the incidence of the duties which would emerge from the negotiations provided for in Article 20 of the Treaty would be higher than if arithmetical averages were used.

(f) Internal Harmonization of the Common Tariff

62. Attention was drawn to Article 21(2) of the Treaty which authorized the Council to make adjustments in the common tariff with a view to ensuring internal harmony within it. Most members of the Working Party considered that this provision of the Treaty might be used to raise the duty on certain tropical products in order to bring them in line with duties on competing products, e.g. the duty on cocoa might be raised to bring it in line with, say, coffee. Similarly, the duty on a raw product, e.g. cocoa, might be raised to harmonize with the duty level on a semi-manufactured product, e.g. those to be determined under List G.

63. The representatives of the Six pointed out that the four tariffs of the Member States, when brought together, might lead to an unreasonable expansion of the common nomenclature or to rates which would call for some degree of harmonization. It was for the purpose of dealing with such difficulties that Article 21 provided the opportunity of making certain adjustments. Article 21, did not, however, permit changes to be made in the general incidence of the tariff arrived at under those provisions of the Treaty relating to the establishment of the common customs tariff.

(g) Accelerated Introduction of the Tariff Arrangements

64. Members pointed out that, by virtue of Article 24 of the Treaty, it would be possible for Member States to raise their duties against the products of third countries more rapidly than the stage-by-stage procedure laid down in Article 23 of the Treaty. Similarly, Article 15(2) declared a willingness of each Member State to carry out the reduction of duties on the products of other members of the Community, including the A.O.T's, more rapidly than the normal stage-by-stage procedure "if the general economic situation of Member States and the situation of the sector concerned so permitted". Most members of the Working Party considered that

these provisions of the Treaty might well be used to make the full preferential margin on the products of the A.O.T's effective well before the end of the transitional period. In the absence of any assurance from the Six that such an accelerated procedure would not be adopted, they felt that due account should be taken of this possibility in the deliberations of the Working Party.

65. The representatives of the Six argued that the general rules relating to the elimination of customs duties between the Member States and the establishment of the common external tariff were laid down in a detailed and precise manner in Articles 14 and 19 to 23 of the Treaty. Articles 15 and 24 constituted only exceptions to these general rules.

(h) Quantitative Restrictions

66. Members of the Working Party recalled that at the Twelfth Session representatives of the Six had claimed that "they were entitled to deviate from ... Articles XI to XIV insofar as the application of these provisions would constitute obstacles to the formation of the customs union and to the achievement of its objective". In particular, they had insisted that they were obligated "to eliminate insofar as possible - but only to that extent - quantitative restrictions existing between them, without necessarily extending such elimination to countries which are not members of the union". They had also claimed that the corollary of this obligation "implied that the Member States may maintain or impose restrictions applying to non-member countries only". They had further argued that they were required to apply "substantially the same duties and other regulations of commerce". They had elaborated that the words "other regulations of commerce" included quantitative import restrictions, and had added that "by implication" this rule gave them "the right to apply restrictive measures other than those they had been able to apply if the union had not been established". And they had gone on to say that "these additional measures may ... affect commodities which are not produced in the country or countries which take these measures, in which case they cannot be considered as 'protective' measures ...".

67. Some members of the Working Party considered that if the Six exercised these claims they would be establishing protective and possibly discriminatory preferences for producers in the A.O.T's. These quota preferences could become a formidable bar to imports from third countries. Added to a protective common tariff, they could form an absolute bar to imports from third countries.

68. The Working Party noted that quantitative restrictions were among the most effective methods that had been devised for the purpose of restricting trade. Among other things they imposed rigid limits on the volume of trade. They could be used to insulate domestic prices and

production against the changing requirements of the world economy. They were likely to be arbitrary in application and discriminatory in purpose and effect. For these and other reasons the contracting parties to GATT had completely renounced the use of quantitative restrictions as an instrument of protection.

69. The representatives of the Six pointed out that the problem of quantitative restrictions did not arise only in respect of trade with the A.O.T's, but within the whole complex of commercial relations between the Community and third countries. In this connexion the Working Party should refer to paragraph 10 of the Report of Sub-Group B, which included the following statement:

"Following an exchange of views on the provisions of the Rome Treaty in the field of quantitative restrictions, the Sub-Group noted that these provisions were not mandatory and imposed on the members of the Community no obligation to take action which would be inconsistent with the General Agreement. ...."

The representatives of the Six stated further that under paragraph 5 of Article III Member States had agreed that they should aim at securing uniformity between themselves at as high a level as possible of their lists of liberalization in regard to third countries.

(1) The Agricultural Provisions of the Treaty of Rome

70. The Working Party noted that most of the products considered were tropical agricultural products listed in Annex II to the Treaty of Rome and, therefore, subject to the agricultural provisions of the Treaty. Most members of the Working Party considered that the only obvious reason for including such a large number of tropical items in the Annex could have been that Member States intended to apply the agricultural provisions to create non-tariff preferences for the products of the A.O.T's. They pointed out, moreover, that for many products France already operated a form of managed market for the products from its own overseas territories. Since France could not dismantle these arrangements of its overseas territories, the only alternative would seem to be to extend them throughout the Six. Similarly, in tobacco, bananas and oilseeds, monopolies were already in existence in Member States and there would be a tendency to extend them.

71. The representatives of the Six pointed out that nothing in the agricultural provisions justified the view that they were intended to create non-tariff preferences. They were intended to invest powers upon the institutions of the Community to carry out a common agricultural

policy. The aims of such a policy were clearly set out in Article 39 paragraph 1 of the Rome Treaty and they were basically the same as those underlying the agricultural policies of every other country in the world. Furthermore, they explained that some of these provisions were intended to facilitate the abolition of internal trade barriers by means which took into account the special conditions prevailing in the agricultural field (minimum prices) or to make possible a development towards freeing internal trade in certain products for which the provisions of the Rome Treaty, relating to the abolition of quantitative restrictions and import duties, were not adequate because of the existence of certain national regulations (long-term contracts) and thus to comply fully with the provisions of Article XXIV of the General Agreement.

72. In the absence of any undertaking by the Six that the agricultural provisions of the Treaty would not be applied to tropical products, most members of the Working Party considered that, in their analysis of the economic effects of the Treaty, they must take into account the possibility that these provisions might be so applied, in ways which would create substantial additional preferences for the A.O.T's. They considered that such action by the Community was particularly likely at a time of declining demand when it could be used to ensure a market, within the Six, at maintained prices for the production of the A.O.T's.

73. The representatives of the Six explained that the aim of the agricultural provisions was to invest powers in the institutions of the Community and that in this early stage it was not possible to indicate in which way and to what extent use would be made of these powers. They saw, therefore, no justification for the assumptions of other representatives as stated above.

74. In this connexion some members of the Working Party argued that under Article 44 of the Treaty during the transition period, minimum prices might be fixed by each Member State for the tropical agricultural products from the A.O.T's, suspending or reducing exports from third countries to preserve the minimum prices, or requiring the products of third countries to be offered at prices exceeding the minimum. This would not only ensure for the A.O.T's a market in the Six for the whole of their production, whatever it might become, but would also give them the minimum prices laid down no matter how much out of line with world prices they might be. The resort to these minimum price provisions was especially likely in the case of those products which were produced in the A.O.T's at uncompetitively high costs and which, consequently, could not be adequately protected by reasonable margins of tariff preferences.

75. The representatives of the Six pointed out that it appeared clearly from the text of paragraph 1 of Article 44 that the system of minimum prices could not be used for all products but only in cases where the

progressive abolition of customs duties and quantitative restrictions between Member States might result in prices likely to jeopardize the achievement of the objectives with regard to the common agricultural policy, as set out in Article 39 of the Rome Treaty. The system of minimum prices was designed to regulate the internal trade of the Community and to prevent a too-great reduction of the prices of some commodities within the markets of one or more of the Member States resulting from the enlarged competition following the liberalization of internal trade. Furthermore, in Article 44 a rather strict procedure was laid down for the gradual control of minimum prices, in which account was taken of the "need for promoting both the progressive improvement of agricultural operations and the adjustments and specializations necessary within the Common Market". It followed clearly from the text of Article 44, therefore, that the system of minimum prices was not designed to afford undue protection to agricultural production within the Six. Moreover, they could not see how the liberalization of internal trade in most of the products produced in the A.O.T's which were discussed could lead to prices likely to jeopardize the achievement of the objectives ruling the common agricultural policy. Therefore they could not see why the system would necessarily have harmful effects on the trading interests of third countries.

76. Some members of the Working Party thought that, alternatively, under Article 45 of the Treaty, Member States individually or collectively could enter into long-term contracts to purchase the total output of the A.O.T's in these tropical agricultural products. The quantities purchased could, under the terms of the Treaty, as production rose, be increased up to the total requirements of the market. The prices paid under these contracts would not necessarily bear any relation to world prices and, in that connexion, it was noted that paragraph 3 of Article 45 permitted payments to Member States to compensate them for any excess prices paid to the A.O.T's, compared with world market prices. To ensure a market in their territories for the products thus bought, Member States would have to apply restrictions to their imports from third countries. It was even conceivable that products thus purchased and not required internally would be resold on third markets at a loss, thus further damaging the trade of third countries.

77. The representatives of the Six observed that Article 45 paragraph 1 contained two cumulative provisos which had to be fulfilled simultaneously before a long-term contract could be concluded, viz, "there exist ...

- provisions designed to guarantee to national producers a sale of their production, and
- a need of import".

It was difficult to see how these provisos could be met for the great majority of products produced in the A.O.T's since, for almost all products discussed, there existed in the importing countries no substantial

production and therefore no provisions designed to guarantee to national producers a sale of their production. It followed that the system of long-term contract could be used only for a limited number of tropical products. As to the products for which the system could be used, it was envisaged in Article 45 that due account would be taken of traditional trade currents. Furthermore, there was provision for the reduction of prices mentioned in the contracts, as they had to approximate "those paid to national producers in the home market of the purchasing country". With regard to paragraph 3 of Article 45, it was pointed out that this article stated clearly that long-term contracts "shall not be an obstacle to imports of raw materials ... for the production of goods destined for export outside the Community ... (and) coming from third countries".

78. They were therefore of the opinion that due account would be taken of the trading interests of third countries. They admitted that the last sentence of paragraph 3 contained an escape clause to this general rule, but they stressed the fact that this clause could be invoked only if the Council - i.e. the body composed of representatives of national governments - passed a unanimous vote to grant the payments necessary for compensation. As the long-term contracts - by their nature and by the wording of Article 45 - could be used only with respect to a limited number of tropical products and on that limited number the escape clause could be invoked only under special circumstances, they were not able to see how the combination of these provisions could be used in such a way as to cause serious harm to the trading interests of third countries.

79. Some members of the Working Party also referred to Article 40(2) whereunder a common marketing organization for the products concerned could be set up to operate as an import monopoly, buying the total import requirements of the Six and reselling them internally. Even products not listed in Annex II could be controlled in this way since such monopoly organizations were not prohibited by the Treaty. The only provision in the Treaty relating to monopolies (Article 37) merely provided that such monopolies should not discriminate against the products of other Member States. Such monopoly buying organizations could, and naturally would, take up first the total output of the A.O.T's at good prices to producers and would then turn to other sources for residual supplies. A monopoly could average out the prices from the two sources of supply to sell at an average price to consumers, or it might even sell the products of the A.O.T's at a discount in order to stimulate demand for the particular qualities and varieties produced in the A.O.T's.

80. The representatives of the Six observed that in the agricultural provisions monopolies were not mentioned at all and that the "European market organization", mentioned in Article 45(2c) did not necessarily mean that a body would have to be set up if this type of common organization were chosen. It was also possible that a set of common rules would be established. They did not deny that the wording was such that

the establishment of a monopoly was not prohibited. But this fact was not peculiar to the Community as almost every country had powers to organize a monopoly-organization if there were need to do so. They did not see at this juncture any reason why a common monopoly need be established. But even if it were presumed that a monopoly buying organization would be established it was not made clear why such an organization "naturally would take up first the total output of the A.O.T's" ... and perhaps "average out the prices from the two sources of supply".

81. Most members of the Working Party considered that the creation of non-tariff preferences on behalf of the A.O.T's, in any of the ways mentioned by them, would be particularly injurious to the trade of third countries, since no matter how efficient their producers might be they could never compete against the preferred supplies from the A.O.T's. As prices paid to the A.O.T's could be kept above world prices their products could be completely isolated from the play of market forces. Production in the A.O.T's would be artificially stimulated and third countries would be steadily forced out of the market of the Six until they had no share in it whatever, however much consumers in the Six might prefer their products. This was of particular concern to producers of such products as coffee and tobacco in which major changes of taste could be enforced by the gradual changing of blends.

82. There was also the possibility under Article 38 of the Treaty to add new agricultural products to Annex II, thus extending the range of the items on which non-tariff preferences for the A.O.T's could be provided.

83. In the light of their statements recorded above, the representatives of the Six were of the opinion that the general conclusions of the representatives of other members were based on the most pessimistic view possible and did not sufficiently take into account the real needs and interests of the Community with respect to agriculture and food supply, and, therefore, that these conclusions were not justified.

84. It was also pointed out by members of the Working Party that in the discussion of this problem in Sub-Group C of the Committee on the Rome Treaty at the Twelfth Session, great stress had been laid on the effects that these provisions could have on countries the economies of which depended mainly on the exports of one or a few agricultural products. To be excluded completely from the markets of the Six on the lines indicated above would be more disastrous for their economies than the exclusion of one or two products of more highly developed countries which had many lines of production to fall back on.

85. The representatives of the Six said that they could not see any reason why a country would be excluded completely from the markets of the Community. They argued that, as the Community as a whole was and would

remain a great net exporter particularly in industrial products and capital goods, it was in their interest to maintain and even to intensify their trade relations with the outside world in general and in particular with countries in the process of development, as these countries could be regarded as important customers for the future.

A N N E X A

SUMMARY OF THE VIEWS OF MOST MEMBERS OF THE WORKING PARTY  
ON THE EFFECTS ON TRADE OF THIRD COUNTRIES

I. Summary of Commodity Discussions

(i) The similarity of opinion amongst non-Six Producing Countries

1. In the discussions on each particular commodity the arguments and conclusions presented by the representatives of some non-Six countries and territories producing the commodity were, in general, accepted and reinforced by most of the other members of the Working Party producing and exporting the same commodity. They were supported by the observers representing other GATT countries interested in the commodity. For this reason these opinions are presented in the commodity reports, where it is appropriate to do so, as the views of the "representatives of producing (or exporting) countries, other than the Six". For cocoa, sugar, coffee, tea, bananas, tropical timber, jute, hard fibres, oilseeds and vegetable oils<sup>1</sup>, aluminium and lead, the arguments thus presented represent the views of non-Six GATT members exporting more than 90 per cent by volume of the commodity. In these cases, moreover, apart from bananas (for which a large block of exporters are not in the GATT) they represent a very high proportion of world supplies, apart from the Six.

(ii) The economic importance of the trade involved

2. The A.O.T's of the Six are within the tropics and are important exporters of cocoa, coffee, bananas, tobacco, oilseeds and vegetable oils, cotton and tropical timber. These items taken together constitute an important section of world trade. They are also producers of tea, sisal, sugar and a whole range of other agricultural commodities. In minerals they are important producers of bauxite, copper ores, cobalt and iron ore. As importers, moreover, the Six as a group constitute a large section of world trade in all the above commodities, representing in most cases at least one-fifth of the world market and sometimes as much as one-third. Any change in the trading relationships of the Six with their A.O.T's and with third country suppliers is bound to have substantial repercussions on world trade as a whole.

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<sup>1</sup> "Oilseeds and Vegetable Oils" throughout this summary refers to the oilseeds produced in the A.O.T's and the oils expressed therefrom, viz. groundnuts and oil, copra and coconut oil, palm kernels and oil, and palm oil.

(iii) Effects of the new arrangements on patterns of trade with the Community

3. The Treaty of Rome lays down that there shall be, by the end of the transition period, duty-free admission of A.O.T. production into the whole Community while, at the same time, a common external tariff barrier shall be created against the products of all other countries. This can only be regarded as the creation of a new large preferential system of major economic significance to world trade. Previously all countries had equal access to the German market, while only the products of the French and Italian overseas territories received preferential treatment in France and Italy respectively and the products of the Belgian and Netherlands overseas territories generally received similar treatment in Benelux. The products of these overseas territories now associated with the Community will have access on preferred terms to the whole market of the Community - a market which is much larger than the preferential market previously enjoyed by any one group of overseas territories.

4. It is also significant that exports of the A.O.T's in many agricultural products already exceed, or are on the point of exceeding, the total requirements of their respective metropolitan preferential markets. On the other hand, in every case, their total exports are at present substantially less than the requirements of the whole market of the Six. Access to this market on preferential terms will, therefore, be particularly valuable to the A.O.T's in the future.

5. For many commodities considered by the Working Party a substantial preferential margin on behalf of the A.O.T's has already been fixed under the Treaty on the basis described in paragraph 3 above, viz. cocoa 9 per cent, coffee 16 per cent, bananas 20 per cent, tea 35 per cent, tobacco 30 per cent, sugar 80 per cent, plywood 15 per cent. For other commodities on which the tariff is yet to be determined, e.g. vegetable oils tropical timber, aluminium and lead, a preferential tariff of value to the A.O.T's will be created if the duty is above zero.

6. Such tariff preferences will strongly influence importers in the Member States of the Community to give priority in their purchases to the products of the A.O.T's. This will cause diversion of trade from third country suppliers of those commodities, thus disrupting traditional trade patterns. The influence of these new arrangements on trade will be felt immediately, and the resulting changes in trade will in most cases be considerable by the end of the first period of tariff change (i.e. in four to five years' time). The following (1956) figures of the non-Six exports of the A.O.T's (which will now be attracted into the Community) give a measure of the scope for immediate diversion of trade:

	<u>Volume</u>	<u>Value</u>
	'000 Metric Tons	US \$ million
Cocoa	36	21
Coffee	64	52
Bananas	18	1
Sugar	25	4
Tropical timber	n.a.	9
Vegetable oils	62	15

7. Production in the A.O.T's is expected to grow during the coming years. French and Belgian experts have foretold increased production (subject to weather and other factors) of 30,000 tons of cocoa and 80,000 tons of coffee in the next four years and substantial increases in all other commodities produced by the A.O.T's. The diversion of trade, as these increases are taken up by the markets of the Six, will inevitably become more serious. For example, robusta coffee from third countries is likely to be completely shut out of the markets of the Six in a few years.

8. The new preferential system will in itself further stimulate production by giving A.O.T. producers an assurance of a large new market at prices in many cases substantially above world prices. The arguments on this issue are set out most fully in the cocoa and coffee reports. In general it is felt that the Six have failed to appreciate the strength of the stimulus of access to a new preferential area and consequently the magnitude of the increases in production which will arise in the A.O.T's. This additional production will tend further to exclude the products of third countries in the markets of the Six, so that by the end of the transition period the total effect will have snow-balled into a major dislocation of trade. The increase of production in the A.O.T's will by then have become so great in many commodities that the whole of the present market of the Six will have been largely taken up by A.O.T. production.

9. Rising wealth in the Community will lead to increased demand for consumer goods, but this will not necessarily be directed towards the particular tropical products under consideration, e.g. beyond a certain level of wealth, demand for cocoa products and edible fats, tends to fall. Moreover, in the case of some of these commodities, demand will tend initially to be reduced by increases in the duty levels (which must be largely passed on to consumers) so that total demand in the Community may take some time to surpass present levels. Even in those cases, however, where there is a tendency for rising demand to offset the fall in sales of third countries due to the preferential treatment of A.O.T. goods, the share of third countries in the market will be lower than it would have been if there had been no such preferential treatment. It is inequitable to deny third countries the same opportunities as the A.O.T's to share in any rise in demand in an important sector of world trade to which all countries have so far had unhampered access.

10. The preferential tariff margins will encourage in some cases a shift in consumer preference to the particular grades or varieties produced in the A.O.T's and will thus lead to a diversion of trade away from the kinds produced by third countries, e.g. a diversion from arabica coffee to robusta coffee, from flue-cured tobacco to dark tobacco, etc. In other cases, the tariff would seem to be designed to price the commodity out of the market of the Six in order to divert consumption to alternative products of the A.O.T's or the Community. For example, the 35 per cent duty on tea will tend to reduce consumption in favour of coffee and other beverages.

11. During 1956 the Member States of the Community imported from third countries the following:

	<u>Volume</u> <u>'000 Metric Tons</u>	<u>Value</u> <u>US \$ million</u>
Cocoa	166	113
Coffee	258	399
Bananas	334	99
Sugar	539	50
Tea	20	29
Tobacco	153	185
Plywood (1'000 cubic metres)	76	n.a.

This is a measure of the trade which is in jeopardy. It is not suggested that all this trade is immediately at risk. In some cases, e.g. robusta coffee it will almost certainly be lost in a few years, while in others an appreciable part may remain after the end of the transition period. Nevertheless, the new preferential system places it all "at risk".

12. The trade in List G items which will similarly be placed in jeopardy if a preferential tariff is introduced was, in 1956:

	<u>Volume</u> <u>'000 Metric Tons</u>	<u>Value</u> <u>US \$ million</u>
Vegetable oils	244	120
Aluminium	124	82
Tropical timber <sup>1</sup> (1955)	1,000	78

13. For the reasons stated in paragraphs 8, 9 and 10 above a further effect on trade must be that third countries will be reduced to the role of residual suppliers of the Six, supplying only such part of the markets of the Six as cannot be filled at the time by the A.O.T's. The consequence of this would be that at any time of falling consumption in the Six the reduction in demand for imports will be borne solely by third countries. Their share in the trade of the Six will thus decline disproportionately. For those countries which are particularly dependent upon the markets of the Six, this could have especially serious consequences during any recession of trade.

14. The adverse effect of this diversion of trade might be seriously increased by the competition which may be offered in third markets by the A.O.T's (e.g. in robusta coffee and cocoa). Exporters in the A.O.T's will be enabled to undersell their competitors elsewhere because of the substantial margin above world prices they will receive from sales to the Community. Moreover, in order to earn foreign currency, export promotion measures may be adopted officially to encourage sales in third markets - particularly in the dollar area. Third countries would thus be threatened at one and the same time both in their markets in the Six and in third markets.

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<sup>1</sup> Non-coniferous only

This is particularly serious for Latin American and other producers who have no sheltered market and whose main outlet must be the dollar area, since balance-of-payments restrictions exclude them from many other export markets.

(iv) Effects on world markets

15. Moreover, the new preferential system created by the association of overseas territories with the Community will tend to depress the world market prices of the commodities influenced by it. Experience since the war has shown that relatively small differences in the world supply/demand relationship can cause wide fluctuations in the free market prices of many of the commodities produced by the A.O.T's. The new régime will have adverse effect on the supply/demand relationship, both directly by tending to reduce demand and stimulate production, and indirectly by reducing the size of the world free market and thus rendering it more sensitive to variation,

16. It is shown in detail in the commodity reports that the world trade in certain commodities may be seriously affected. The value of total exports by all non-Six producers of these commodities amounted to some \$7,000 million in 1956. A substantial degree of damage to this trade seems inevitable. The losses of export earnings thus caused will not, of themselves, be a full measure of the damage suffered, since, in addition, consideration must be given to the impact of such losses on the weak economies of the under-developed countries which are the main producers of the commodities concerned.

(v) Non-tariff arrangements

17. The Six have claimed they have the right under the GATT to apply quantitative restrictions in ways which could discriminate against the trade of third countries. If the Six were to do so, substantial non-tariff preferential treatment could be given to the A.O.T's products.

18. Moreover, the only obvious reason for inserting tropical products, not produced within the Community, in Annex II of the Treaty is that the Six intend to use the agricultural provisions to give the products of the A.O.T's further benefits. Action on such lines is most likely in the case of coffee, oilseeds and vegetable oils, sugar, and tobacco. It is possible, however, over the whole range of tropical agricultural products included in Annex II. Other "products of the soil" could be added to Annex II so that such products of the A.O.T's as cotton, sisal and rubber could also be given preferential treatment.

19. Since quantitative restrictions and the agricultural provisions of the Treaty could be operated to exclude other producers totally from the markets of the Six in the interests of A.O.T. producers, no matter how competitive the production of the former might be, the effect of these non-tariff preferences on the trade of third countries could be much more serious even than a tariff preference.

20. In the case of those commodities which are to enjoy a tariff preference the agricultural provisions could be operated to reinforce the protection it will provide. For example, the change of taste in the Community towards the varieties of tobacco, coffee, etc., produced by the A.O.T's could be encouraged and even enforced by suitable control measures. The use of these provisions, or the knowledge that they might be invoked, would also tend further to stimulate production in the A.O.T's. The harmful effects of the new preferential régime would thus be greatly enhanced.

21. In respect of oilseeds, for which the tariff in the Treaty has been fixed at zero, the probability that use will be made of these non-tariff preferential arrangements constitutes the most likely source of damage to the trade of third countries with the Six. This trade amounted to \$110 million in 1956 and if such action is taken a substantial part of it will be at risk, especially having regard to the possibilities of increasing oilseeds production in the A.O.T's.

22. Moreover, at a time of falling world prices there would clearly be a special incentive to use these provisions of the Treaty to safeguard the returns of producers of any agricultural commodity in the A.O.T's. If they are so used, production will then be artificially maintained and even expanded in the A.O.T's with the result that world prices will decline even further and the full effects of the recession will be borne by producers in third countries, no doubt forcing them to cut back production substantially.

(vi) Semi-manufactured and manufactured products

23. Semi-processed or processed products can be made from many of the commodities produced in the A.O.T's. Examples are cocoa paste, cocoa butter and chocolate liquor; cotton textiles; jute manufactures, coir products; sisal products; alumina and aluminium; copper products. Appreciable tariffs have already been fixed for some products, while others are in List G and may well also have duties imposed on them. The exports from the A.O.T's of most of these processed products are at present negligible, but under the stimulus of a preferential tariff (especially if the preferential margins were such as to make it financially more attractive for the A.O.T's to process their products than to export them in their primary form) manufacture and exports of the processed products would grow. The development of the refining of aluminium and other metals seems particularly likely, given the sources of cheap electricity available in the A.O.T's.

24. If these developments do occur, demand in the Community will shift from the primary or processed products of third countries to the processed products of the A.O.T's. Diversion of trade will thus occur - a diversion which will increase steadily as production in the A.O.T's grows. Trade of both the primary products and the finished items will then suffer, e.g. bauxite will suffer as well as aluminium. World prices of the raw materials and the finished products will be adversely affected.

25. These developments need not be confined to products based on the raw materials of the A.O.T's. Raw materials (e.g. bauxite and cotton) could be imported by them and processed for re-export duty-free to the Community. As experience has shown under similar conditions elsewhere, investors in the Community will be attracted by conditions in the A.O.T's, particularly the availability of relatively cheap labour. Such industries could thus grow rapidly, to the detriment of manufacturers in third countries and even those in the European Community itself.

(vii) Duty-free items

26. Cotton, hard fibres and jute are to be admitted duty-free into the Community and are not in Annex II of the Treaty. No harm should be caused to the trade of third countries provided:

- (a) the duty remains free;
- (b) no quantitative restrictions are applied to those commodities in ways which would give a non-tariff preference to the A.O.T's;
- (c) they are not added to Annex II and hence are kept outside the ambit of the agricultural provisions of the Treaty; and
- (d) no government sponsored arrangements are made with manufacturers in the Community to discriminate on their purchases in favour of A.O.T. supplies.

Since there is some production of cotton, sisal, coir, jute substitutes in the A.O.T's any form of preferential treatment in these items would prejudice the trade of third countries. The same considerations apply to other agricultural items, not yet examined by the Working Party, which are to be admitted duty-free into the Community. Points (a), (b) and (d) will also apply to industrial raw materials produced in the A.O.T's such as bauxite, copper ores, rubber, etc.

(viii) Other commodities and types of trade affected

27. The Working Party had not yet had an opportunity to examine all the commodities exported by the A.O.T's (though it has dealt with the main ones), nor has it examined the commodities which are imported into the A.O.T's from the Six. Countries have submitted a substantial list of additional commodities on which they fear diversions of trade. These aspects of the trade of the A.O.T's will no doubt be examined in due course, having regard to the terms of reference of the Working Party.

## II. Overall Effects on World Trade

28. The Working Party covered during the six weeks of its discussions a very substantial part (over 80 per cent) of the export trade in agricultural products of the A.O.T's. It also covered two representative metals - aluminium and lead. This coverage is sufficient to enable certain general conclusions to be reached about the problems which the association of overseas countries and territories with the Community raises for the trade of other contracting parties. Such conclusions are not likely to be basically altered by the consideration of the commodities exported by the A.O.T's nor by the examination of the commodities imported by the A.O.T's, although it is possible that new areas of potential or actual damage may be uncovered during such examination.

29. As has been shown, the commodities likely to be principally affected by the association of overseas territories with the Community are cocoa, coffee, bananas, tobacco, tea, oilseeds, vegetable oils, tropical timber, plywood and aluminium. The trade of third countries with the Six in these items was over \$1,000 million in 1956. Early in the transitional period some of this trade is likely to be lost and over the long-term a substantial part of it is in jeopardy or may be jeopardized by actions of the Six permitted under the Treaty of Rome.

30. The agricultural commodities produced in the A.O.T's are the main tropical and semi-tropical agricultural products entering into world trade. This is not surprising in that the A.O.T's cover a substantial area lying in the tropical belt. Many other countries in that belt, unlike some of the A.O.T's, have at present little or no wealth from other sources (such as minerals). The percentage of their total export trade (and hence of their national income) is, therefore, more dependent on these particular tropical items than are most of the A.O.T's. Details are given in the Statistical Appendix to this Report and in the commodity reports. It will be seen that certain countries are very heavily dependent on their exports of one or two of the commodities; e.g. Ghana in respect of cocoa. Other countries (e.g. Dominican Republic, Indonesia) rely largely for their export trade on a number of commodities in each of which some part of their trade is at risk. The cumulative effect for such countries will, therefore, be as serious as it will be for a country like Ghana. The export trade of many under-developed countries in all parts of the world is, therefore, endangered by the association of overseas territories with the Community.

31. In particular, it will be noted that a substantial proportion of the total trade of almost all countries in Africa south of the Sahara is seriously endangered. The countries and territories are:

Ghana, Gambia, Ethiopia, Sierre Leone, British West Africa, Nigeria (in itself one-third of the population of this part of Africa), Rhodesia/Nyasaland, Portuguese East Africa and the Union of South Africa.

Their exports which are likely to be adversely affected include cocoa, coffee, tobacco, oilseeds, vegetable oils, tropical timber and lead. These countries contain 70 per cent of the population of this part of Africa and export 75 per cent of its total exports, as compared with 30 per cent of the population and 25 per cent of the export trade in the A.O.T's. Even within Africa south of the Sahara, therefore, the greater part of the trade and more people are likely to be adversely affected by the association of overseas territories than are likely to gain from it.

32. The territories likely to be affected are not confined to Africa. In the East the following GATT members have serious cause for concern:

Ceylon, India, Malaya, Singapore, the Philippines and Indonesia.

Indonesia's whole export trade is threatened since an important part of its total exports have gone to the Six in recent years.

33. There are, moreover, many countries in Central America, South America and the Caribbean which have to sell their products wholly in non-preferential markets at world prices and for whom over 70 per cent of their trade (and in some cases 90 per cent) is in the same agricultural commodities as are produced by the A.O.T's. They have, therefore, particular cause to fear substantial damage to their export trade arising from the association of overseas territories. They include the following GATT members:

Brazil, Chile, Dominican Republic, Haiti, Peru;

and the following other countries:

Colombia, Costa Rica, Ecuador, Guatemala, Mexico, Venezuela.

34. There are other countries and territories whose export trade in some of the commodities affected is protected at least in part from market fluctuations by special trading arrangements. They include:

Cuba, British West Indies, British Guiana, British Honduras, Mauritius and certain Pacific Ocean territories.

Nevertheless, even for these territories a significant part of the returns they receive from their export sales is related to world prices and since world prices are threatened (paragraph 16 above) they have cause for concern.

35. All these under-developed countries are dependent solely on the export to world markets of these and other primary products. It is, therefore, vital to such countries that world markets for primary products should not only be maintained, but should continue to grow and that international trade should be

progressively freed from restrictions. These countries need steadily increasing national incomes to meet the over-increasing burden of recurrent expenditure. Moreover, they have extensive development plans, in accordance with the desires of their peoples for advancement. These must be financed at least to a considerable extent by export earnings. If, therefore, the foreign trade earnings of these territories cease to grow and still more, if they are actually reduced, living standards will fall and development plans will have to be curtailed. This in turn must affect their demands for imports of all kinds - primary products, consumer goods and capital goods. The direct damage which the association of overseas territories will do to the export trade in the products already considered will thus be multiplied by the indirect effects and will reach other countries, including industrialized countries like the Six themselves.

36. The Six state in the Treaty of Rome that their objective in associating the overseas territories with the Community is "to lead the inhabitants of the A.O.T's to the economic, social and cultural development they expect". This is a laudable aim which is shared by those responsible for the well-being of all other under-developed countries. However, it has been shown that the method - the creation of a new preferential area - by which the Six are attempting to achieve their objective, is likely to cause substantial damage to the economic, social and cultural development of other territories with living standards similar to those of the A.O.T's and producing similar primary products. The arrangements in fact involve a diversion of social and economic development as well as a diversion of trade.

37. The Six have so far seriously under-estimated the harm that they may do to the trade of other countries. Now that the discussions on the Working Party have made the dangers clear, it is hoped that the Six will try to achieve their objectives by methods not damaging to others, in accordance with the basic principles of the GATT.

A N N E X B

SUMMARY OF VIEWS OF THE REPRESENTATIVES OF THE MEMBER STATES

The text of this Annex will be issued later

## Annex C

Summary Table of Trade in 1956 in the Commodities Examined by the Working Party<sup>a</sup>  
(quantities in thousand metric tons)

## Tableau C de l'Annexe

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Tableau Résumé du Commerce en 1956 des Produits Examinés par le Groupe de Travail<sup>a</sup>  
(quantités en milliers de tonnes métriques)

Items Produits	Common Tariff per cent ad valorem Tarif Commun pourcentage ad valorem	World Export Quantity Exportations mondiales (quantités)	Estimated World Export Value in 1955 (million dollars) Valeur Estimée des Exportations Mondiales en 1955 (millions de dollars)	Imports of the Community Importations de la Communauté		Total Exports from the A.C.T.'s Exportations totales en provenance des T.O.M.A.	Other Main Exporters to the Six Autres Exportateurs Principaux à destination des Six			Other Exporting Countries Autres Pays Exportateurs	
				Total	from sources other than the A.O.T.'s en provenance de sources autres que les T.O.M.A.		Country Pays	Total exports (quantity) Exportations totales (quantités)	of which percent to the Six dont à destination des Six (pourc.)		Value in per cent of country's total exp. Valeur par rapport aux exp. totales du pays exportateur (pourcentage)
Cocoa Cacao	9	747	500	272 (incl. prod.) (y compris prod. dér.)	175 (incl. products) (y compris produits dérivés)	133	Ghana . . . . . Brazil - Brésil . . Nigeria . . . . .	238 126 119	47 27 26	65 5 18	Dominican Republic, Venezuela, Ceylon, Indonesia, British West Indies, Sierra Leone République Dominicaine, Venezuela, Ceylan, Indonésie, Indes occidentales britanniques, Sierra Léone
Coffee Café	16	2,315	2,100	496	343	272	Brazil - Brésil . . Colombia - Colombie Uganda - Ouganda . Indonesia Indonésie . . . . .	1,008 303 61 58	16 9 12 43	70 79 39 3	Dominican Republic, Haiti, Cuba, Nicaragua, Peru, Malaya, India, Kenya, Tanganyika, Angola République Dominicaine, Haïti, Cuba, Nicaragua, Pérou, Malaisie, Inde, Kenya, Tanganyika, Angola
Tea Thé	35	540	550	20	20	1	India - Inde . . . Ceylon - Ceylan . . Indonesia Indonésie . . . . .	235 163 34	2 4 44	23 60 3	Pakistan, Japan, British East Africa, Rhodesia and Nyasaland (Fed.), Taiwan, Malaya Pakistan, Japon, Afrique orientale britannique, Rhodésie et Nyassaland (Féd.), Taiwan, Malaisie
Bananas Bananes	20	3,040	300	703	511	253	Ecuador - Equateur Colombia - Colombie Honduras . . . . . Costa Rica . . . . .	593 260 252 235	n.a. - n.d. n.a. - n.d. n.a. - n.d. n.a. - n.d.	40 5 52 34	Jamaica, Nigeria, Canary Islands, Brazil, Guatemala, Panama, Dominican Republic Jamaïque, Nigéria, Canaries, Brésil, Guatemala, Panama, République Dominicaine
Sugar Sucre	80	13,330	1,010	936	985	10	Cuba . . . . . Dominican Republic Rép. Dominicaine Brazil - Brésil (55) Peru - Pérou . . .	5,394 693 576 428	8 14 17 1	79 48 3 11	Indonesia, Union of South Africa, Australia, Mauritius, Trinidad, Fiji Islands, British Guiana, Taiwan, Philippines Indonésie, Union Sud-Africaine, Australie, Ile Maurice, Trinité, Iles Fidji, Guyane britannique, Taiwan, Philippines

<sup>a</sup> The data concerning tobacco, copra, coconut oil, groundnuts, groundnut oil, palm kernels, palm kernel oil, palm oil, cotton, jute, sisal, abaca, tropical timber, bauxite, aluminium and lead will be inserted after all the commodity reports have been finalized.

Les données se rapportant aux produits suivants : tabac, coprah, huile de coco, arachides, huile d'arachide, palmistes, huile de palmiste, huile de palme, coton, jute, sisal, abaca, bois tropicaux, bauxite, aluminium et plomb, seront insérées dans ce tableau après que tous les rapports sur les produits aient été terminés.

A N N E X D

NOTES AND LIST OF ABBREVIATIONS USED IN TABLE "A"  
(RELATING TO CUSTOMS DUTIES ETC.) APPENDED TO EACH COMMODITY REPORT<sup>1</sup>

Notes

1. The determination concerning the possible fiscal nature of certain customs duties applicable to the items under consideration can be made only at a later date in conformity with the provisions of Articles 17, 22 and 23 paragraph 2, of the Treaty.
2. The elimination of import duties in respect of products originating in the overseas countries and territories is governed by the following rules, which are those applicable to the elimination of duties between the Member States under Article 133 of the Treaty:
  - (1) At the end of the third stage, i.e. at the end of the transitional period, duties shall be completely eliminated.
  - (2) The Member States shall endeavour to ensure that the reduction applied to the basic duty (i.e. to the duty applied on 1 January 1957) on each product shall be:
    - at the end of the first stage: not less than 25 per cent of the basic duty;
    - at the end of the second stage: not less than 50 per cent of the basic duty;
  - (3) Within this framework, there are to be a number of reductions: three in each of the first two stages, and an unspecified number in the course of the third stage. The following rules shall be applied:
    - (a) the first reduction, to be made one year after the date of entry into force of the Treaty, i.e. on 1 January 1959, shall be equal to 10 per cent of the basic duty.

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<sup>1</sup> These notes, as submitted by the representatives of the Member States, are annexed to this main Report in order to avoid the necessity of attaching them to each Commodity Report.

(b) at the time of each subsequent reduction, the Member States shall simultaneously:

- in the case of each product make a reduction of not less than 5 per cent of the basic duty where the duty applicable at the time when the reduction is effected is less than 30 per cent, and of not less than 10 per cent of the basic duty where the duty applicable at the date when the reduction is effected still exceeds 30 per cent;
- reduce all their duties and not only duties applicable to products originating in the overseas countries and territories, in such a way as to reduce by 10 per cent their total customs receipts (i.e. the total levy yielded as a result of the application of basic duties to the value of imports coming from other Member States during the year 1956).

(4) Member States may reduce their duties more rapidly if the general economic situation and the situation in the sector concerned so permit.

Taking these provisions into account, the elimination of duties has been computed, to serve as an indication, according to the rule referred to under (2) above.

3. The alignment of duties with the common external tariff has been computed in conformity with the provisions of Article 23, paragraphs 1 and 3 of the Treaty, subject to the possible application of Articles 24 and 26.

4. In considering the tables appended to the commodity annexes the following should be noted for the products to which the study extends:

(a) Bananas, coffee, tea, sugar, cocoa and tobacco

In the case of Italy, imports of these items when coming from Chile and Japan are under licence; imports from Somaliland under Italian trusteeship are unrestricted.

(b) Oilseeds, oilbearing fruits, vegetable oils, wood and timber, cotton and hard fibres

In the case of Italy, imports of these items when coming from Japan (except roundwood and squared, half-squared or sawn wood) and Chile are under licence; imports from Somaliland under Italian trusteeship are unrestricted.

(c) Vegetables, fruits, spices and other vegetable products, rubber, leather, hides and skins, as well as ores and metals

In the case of Italy, imports of these items when coming from Japan (except ores of titanium, molybdenum and tungsten, ferro-chromium containing by weight not less than 5 per cent but not more than 90 per cent chromium, and unwrought copper and copper waste and scrap), from North Korea, Western Germany, Vietminh and Chile are under licence; imports from Somaliland under Italian trusteeship are unrestricted.

Imports into the Federal Republic of Germany from the following countries are under quota: Albania, Bulgaria\*, Chinese People's Republic (including Manchuria, Inner Mongolia, Sinkiang, Tibet), North Korea, Mongolian People's Republic, Poland\*, Rumania\*, Czechoslovakia\*, Hungary\*, Union of Soviet Socialist Republics (including Estonia, Latvia and Lithuania), North Vietnam, the eastern territories of the former German Reich (currently under Polish or Soviet administration).

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Imports of certain goods from the countries marked with an asterisk are under "open general licence" (virtual liberalization).

List of abbreviations

(B)	=	bound rate of duty
(PB)	=	partially bound rate of duty
G	=	item included in List G
L	=	liberalized imports
LP	=	liberal import policy
Qu	=	import under quota
AI	=	average incidence (1956)
\$ area	=	dollar area. As far as Italy is concerned the dollar area includes the following countries: Bolivia, Canada, Colombia, Costa Rica, Cuba, Dominican Republic, El Salvador, Formosa, French Somaliland, Guatemala, Haiti, Honduras, Lebanon, Liberia, Mexico, Nicaragua, Panama, Peru, Philippines, South Korea, Syria, United States of America and dependencies, Uruguay, Venezuela. As far as the Federal Republic of Germany is concerned, the dollar area includes the following countries: Bolivia, Canada, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Liberia, Mexico, Nicaragua, Panama (excluding the Canal Zone), Peru, Philippines, United States of America and dependencies, Venezuela.
DM	=	Deutsche Mark
F	=	Belgian franc
Fl	=	Dutch guilder