

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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ROME TREATY
JOINT CONSULTATIONS UNDER ARTICLE XXII
Consultation with the Member States of the
European Economic Community on Cocoa

Agreed minute submitted by the participating
contracting parties

1. The consultations on cocoa under Article XXII of the General Agreement with the Member States of the European Economic Community, which were held at the request of the Government of the United Kingdom, and which opened in Geneva on 12 and 18 November 1958, were resumed in Geneva on 18, 23 and 24 February 1959. This minute relates to the February consultations only.
2. In addition to Member States of the EEC, the following other contracting parties participated in the consultations: the United Kingdom, Brazil, the Dominican Republic, Ghana, Indonesia and the United States of America¹. The Chair was taken alternately by a representative of participating countries other than the Six and by a representative of the Six.
3. The discussions were carried out in the light of data and discussion to be found in the working party's report on cocoa (Addendum 1 to L/805), the statistics furnished by the GATT secretariat (attached herewith as Annex I), the discussions which had taken place in the previous consultation under Article XXII, and various memoranda (i.e. the memorandum submitted jointly by the Governments of Brazil, Ghana, Indonesia and the United Kingdom (attached herewith as Annex II) and the reply prepared by representatives of the Six (attached herewith as Annex III)).
4. In order not to burden the minute and since the views expressed individually by the representatives of each third country were generally shared by the others, these views are recorded as the views of "representatives of participating countries other than the Six".

¹ With reference to the status of the United States see paragraph 4 of the report on bananas (document Spec(59)66) and its annexed declaration by the Six.

COMMON EXTERNAL TARIFF

(a) Implementation of the Common Tariff

5. Representatives of the Six provided the following information about steps taken by the Member States of the European Economic Community in the field of customs tariffs since the previous consultations:

(i) Import duty on cocoa beans prior to 1 January 1959:

	<u>Legal Duty</u>	<u>Duty Applied</u>
France	25	0
Germany, Fed. Rep. of	10	10
Italy	5	0
Benelux	10	0

(ii) Under the Rome Treaty the situation as of 1 January was to be:

	<u>Duty effectively applied</u>	
	on imports from AOT's	on imports from third countries
France	0	0
Germany, Fed. Rep. of	9	10
Italy	0	0
Benelux	0	0

In other words, a 1 per cent preference in favour of the AOT's was to obtain in the German market as of 1 January 1959.

(iii) At the end of 1958, that is before the entry into force of this preference, the German Government decided to apply, with effect from 1 January 1959, the common external tariff rate of 9 per cent in respect of all imports of cocoa beans. This decision resulted in the nullification of the 1 per cent preference in favour of the AOT's. The decision taken on 3 December 1958 by the Member States of the European Economic Community had the same end in view. The CONTRACTING PARTIES were informed of this decision in document L/954 of 13 January 1959 distributed by the GATT secretariat. It will be noted that since the last consultation France has liberalized imports of cocoa beans from all sources.

6. Representatives of participating countries other than the Six expressed their concern about the uncertainty attached to further action by the Community to implement the 9 per cent tariff, especially the possibility that the introduction of the common tariff and the reduction of internal barriers might be speeded up, and asked that adequate notice be given of future tariff changes.

(b) Assessment of the Common Tariff

7. Representatives of participating countries other than the Six expressed their concern about the effect on their trade in cocoa of the future introduction of a discriminatory tariff of 9 per cent in France, Italy and Benelux, where imports had previously been admitted free of duty, and stated that the use of a weighted or of an arithmetical average based on rates applied on 1 January 1957 would have resulted in a much lower figure. They noted with satisfaction that the reduction of duty on 1 January 1959 by the Federal Republic had been applied non-discriminatorily, and they hoped that this was a good augury for the future. They pointed out that the failure to use an arithmetical average of the applied tariffs calculating the common tariff was likely to lead to increased barriers to trade, contrary to the principles laid down in paragraph 4 of Article XXIV.

8. The representatives of the Six recalled that the common tariff of 9 per cent had been agreed in negotiations between the Member States and had not been calculated on a weighted or arithmetical average of the applied or legal tariffs. They pointed out, however, that if the legal tariffs had been used, as Member States had the right to do, the figure of 12.5 would have been obtained by taking the arithmetical average of those tariffs. They recalled, however, that the experts who had been asked at the twelfth session to consider the question of the common external tariff had come to the conclusion that none of those methods would give satisfactory results. They emphasized that the legal rates had been bound against increase as a result of negotiations under the General Agreement in preceding years, and that those tariff bindings had been deemed sufficiently attractive by third countries to warrant counter-concessions.

DEVELOPMENTS IN PRODUCTION AND CONSUMPTION

9. The representatives of participating countries other than the Six noted that as yet no preference had been granted to cocoa from the associated overseas territories in the markets of the Community. They expressed the view, however, that the tariff preference which would be introduced must act as a stimulus to increased production in these territories both by increasing prices for producers and by giving an assurance of a market, and that producers there would already be taking action to enable them to benefit fully from the 9 per cent margin of preference when it finally took effect. Their views on the scope for increasing production in the AOT's had already been fully set out in the report of the working party (L/805/Add.1). They believed that there would in time be a substantially greater production of cocoa in the AOT's than there would have been had these territories not been given a privileged position in the markets of the Six, and they considered that this view was borne out by the statement of the Six that the 9 per cent preference was part of the series of measures intended to be of advantage to their AOT's.

10. The representatives of the Six replied that if the situation of the cocoa trade was causing concern, it was certainly not due to the Treaty of Rome, but to that product's special position in the world economy. They recalled that for some years production had been at a somewhat low level, and that consumption had tended to decline because of the high prices resulting from inadequate supplies.

This view is confirmed by experts, as the following extract from No. 113 of the Cocoa Market Report of December 1958, published by Gill and Duffus Ltd., shows:

"...with production in Ghana and the French Ivory Coast in particular running at what seems to be extremely low levels. This gives cause for concern not only for the current supply position but indeed for the future of cocoa in West Africa ... Consumption is continuing its steady decline which set in about the beginning of this year. Cocoa at over £300 a ton has always led to a steady decline in consumption in the long term and there is no reason to suppose that it is not happening at the present time..."

In the associated overseas territories the problem arises of replacing old plantations with a low output, but it is doubtful whether the producer, who is interested only in the immediate profit, would be guided in his actions by the prospect of the long-term advantages he might derive from preferential tariffs. The representatives of the Six pointed out that these questions had already been discussed by the AOT Working Party and more particularly that according to the views of third countries which had participated in that work - views expressed in the Working Party's report:

"...at a most conservative estimate ... this would lead within the next fifteen or twenty years to additional annual exports from the AOT's of at least 50,000 tons above what would otherwise have come forward."

Although experts in authoritative circles dealing with these problems are somewhat guarded as to the actual possibilities of increasing production, the Six were of the opinion that such an increase in production - an increase which is not confirmed by facts at present - would perhaps have the effect, if it did occur, of reducing the present upward tendency of prices, and would thus contribute to a revival of consumption. Again in their opinion the tariff preference, if it had any influence on production in the AOT's, would only have effect towards the end of the transitional period and even then it was not expected that the increase would be unreasonable.

DAMAGE

ACTUAL DAMAGE TO THIRD COUNTRIES

(a) Determination of Damage

11. The representatives of participating countries other than the Six considered that the approach to the problem of determining damage by the examination of statistics as proposed by the Six was entirely wrong. They considered that the case they had presented proving that damage must arise in the future should be examined as the basis of the consultation. Their case was a very reasonable and logical one, likely to be accepted by any unbiased observer. The representatives of the non-Six understood that the representatives of the Six had agreed that the duty would affect prices to an appreciable extent, and that production would grow. Baron Snoy, speaking on behalf of the

Six at the thirteenth session, had indicated that the Six wished to avoid actual damage¹. But actual damage could not be avoided by the post hoc examination of statistics, but only by a consideration of an a priori case such as that now presented by them. If, therefore, the Six genuinely wished to avoid damage, they must be prepared to weigh the case put to them by the non-Six. Moreover, in their opinion, the consultations could not be regarded as "fruitful", in Baron Snoy's phrase, if they did not lead to steps being taken by the Six to avoid damage to the trade of third countries.

12. Representatives of participating countries other than the Six asked what the Six would do if, in a few years time, third countries came forward with an irrefutable case showing many millions of pounds' worth of damage. Would the Six then make payment to third countries in compensation of this damage?

13. In reply to this question as to the intentions of the Six in case losses were proved, the representatives of the Six pointed out that the question certainly did not arise at present, but should it do so they would certainly give it their full attention and consider what attitude should be adopted.

14. The representatives of the Six first quoted in full the following paragraph from the statement made by Baron Snoy during the thirteenth session:

"The question today is whether, on the basis of the impartial summary by the Chairman of the CONTRACTING PARTIES, it could not be noted that, between mere apprehension as to possible damage which the Six cannot accept as constituting adequate justification and the actual damage which we would all wish to avoid, there is a considerable margin wherein there must be somewhere a basis for fruitful conversations."

The representatives of the Six regretted that the representatives of third countries had not furnished statistical information, so as to bring the discussion from the hypothetical onto the practical level. In that connexion, they recalled that the statistics on which the Working Party on the AOT's had based its work, and which the representatives of third countries had stated were still valid, dated from 1956 and could no doubt have been supplemented with more recent data. Since the representatives of certain third countries had questioned the usefulness of statistics and had said that it would be too late once any damage could be proved by figures, the representatives of the Six pointed out that statistics had gained fairly general recognition as an appropriate working basis; they said that in any case, the work done by the various official bodies responsible for studying problems relating to cocoa and for preparing estimates of production and consumption for future years was generally appreciated by specialists; those studies, however, indicated no such events as had been referred to during the consultations.

(b) Actual Damage

15. Representatives of participating countries other than the Six said that while it was not yet possible to provide statistical evidence of actual damage, they held the view that on the psychological plane at least it was already occurring, as their producers, who were already faced with other problems,

¹ Vide SR.13/19, page 200.

were being further discouraged by the prospect of being forced out of their markets in the Community. Moreover, the prospect of duty-free supplies from AOT sources was already encouraging importers in the Community to examine the possibility of drawing more of their supplies from these sources.

16. Representatives of the Six recalled that the representatives of third countries participating in the consultation had themselves admitted that it was impossible at the present juncture to prove any damage, and that for the time being one could only make a number of assumptions as to the future developments. With regard to the psychological damage to which some representatives had referred, the representatives of the Six stated that they were not in a position to make any assessment of it, but that during the first consultation in November 1958, some producing countries had stated that because of the Treaty of Rome they had been obliged to revise their production programmes. The representatives of the Six recalled that at the time they had asked for information concerning these programmes and the way in which they had been revised, but had received no response to that request.

17. The representatives of participating countries other than the Six stated that they had in earlier consultations maintained that the prospect of the unfavourable change in conditions of access to the markets of the Six must necessarily discourage the development of production in third countries, but this would occur largely in the private sector and would not be known in detail to governments.

POTENTIAL DAMAGES TO THIRD COUNTRIES

(a) Decline in Consumption

18. Representatives of participating countries other than the Six expressed the opinion that the introduction of a 9 per cent tariff in countries where imports had previously been admitted duty-free would result, at the end of the transitional period, in prices within the Community being higher than the world price, by a substantial part of the 9 per cent tariff. This differential would occur no matter how the world price itself might move due to world-wide market conditions.

19. It was suggested by representatives of third countries that this would lead to a reduction in demand for cocoa beans below what it would have been had there been no duty and to a decrease in consumption of finished products. Information had been received which indicated that manufacturers within the Netherlands, an important cocoa market in the Community, had already made representations to their Government about the possible effects of the 9 per cent tariff on their industry, and this concern of manufacturers within the Community appeared to confirm the views held by third countries about the possible effects of the common tariff. The recent decline in consumption in a number of countries due to high prices supported this general view.

20. Representatives of the Six pointed out that it was rare for an increase in import duty to be reflected fully in price levels. They agreed that the imposition of a 9 per cent duty on imports which had previously been admitted duty-free might ceteris paribus raise prices by an appreciable part of that duty, but it was impossible to foresee precisely by how much, since price levels depended on a large number of factors, particularly on market conditions.

21. The representatives of the Six expressed the view that a decline in consumption would not necessarily result from an increase in prices. The price level at which consumption might be discouraged was well above that which would result from the 9 per cent tariff and they pointed out that they found it difficult to examine the effects on the cocoa trade of a 9 per cent tariff in view of the impossibility, at the present stage, of estimating the level of supply and demand several years hence. They believed, though they could not be certain, that with rising living standards in the Community consumption of cocoa would rise very substantially.

22. Representatives of participating countries other than the Six asked whether third countries were entitled to a fair share of the market of the Community. Representatives of the Six replied that members of the GATT are entitled to whatever rights there are defined in the Agreement's provisions. Furthermore, there were many references in the Treaty of Rome to the desire of the Six to take due account of traditional channels of trade.

(b) Diversion of Trade

23. Representatives of participating countries other than the Six held the view that the higher price obtainable in the Community for their cocoa would encourage AOT producers to sell their total output in that market, thus displacing part of the sales of third countries. This diversion of trade would grow, as production in the AOT's increased. Since consumption within the Community was unlikely to increase much beyond its present level, increased imports from the AOT's would result in producers from third countries getting a much smaller market for their cocoa in the Community than they would have got if there had been no duty. No tariff discrimination was yet in effect, and it would take a few years for expansion of production to affect exports, so that it might be some time before statistics proving diversion of trade could be obtained, but by that time it would be extremely difficult to avoid permanent damage to the trade of third countries. The Heberler Report had said that the preference on cocoa would be trade-diverting rather than trade-creating.

24. Representatives of the Six stated that cocoa producers like most agricultural producers throughout the world were not so much attracted by the uncertain prospects of remote advantages which they could not fully appreciate as by the prices which could be obtained from day to day. Increasing returns incited producers to extend or improve plantations while diminishing remunerations resulted in a loss of interest on their part. In this connexion, the case of Brazilian coffee growers appeared to be particularly significant. Under the incentive of high prices in 1954 Brazilian coffee plantations had been over-expanded. The behaviour of Brazilian growers had clearly shown that they had been prompted not by speculations as to future returns but merely by short-term considerations. There was nothing that could substantiate the view that consumption in the Community would not expand in the next few years and studies on this question while making due allowance for the unavoidable unknown factors, generally led to the opposite conclusion. In fact consumption tended to level off as prices reached high levels as was the case at present.

CONCLUSIONS

(a) Views of the non-Six

25. Representatives of participating countries other than the Six recalled that trade in cocoa was of great importance to their continued economic development. They recalled the arguments which they had put forward in earlier discussion on this subject, and noted that discussions on the present occasion had led to acceptance by the Six of some of their basic arguments, (such as the effects of duty on prices, the tendency for higher prices to decrease consumption, and the advantages of preference to the AOT's), though not the deductions from them. They believed, however, that those deductions were logically inescapable and that the Six would eventually realize this. They expressed their disappointment that the representatives of the Community had not been able to give any assurance to third countries that they would be allowed a fair share in the markets of the Community, nor to say what would be done if damage were proved. While no actual damage could yet be statistically proved, damage of a psychological nature was already occurring, and would steadily increase in the future. Far from being satisfied by the arguments of the Six, their governments were becoming increasingly alarmed at the dangers. They felt that it was for the Six to show that the action they proposed under the Treaty of Rome would not be harmful to third countries, and if they could not do so, to amend their proposals.

26. They further expressed their disappointment that there was still no indication that the Six were considering practical action to forestall damage to third countries, as had in their opinion been implied by Baron Snoy's statement, but seemed rather to prefer to await concrete evidence that damage had been suffered, by which time it might be too late for fully effective remedial action.

27. They would have to report to their governments this failure of the consultations to yield fruitful results and their governments would have to consider how best to continue their pressure for a practical solution to this problem of preventing damage to their trade.

(b) Views of the Six

28. The representatives of the Six pointed out in conclusion that the debates during the two meetings of the consultation had related exclusively, on the one hand, to the level of the tariff, and, on the other, to the effects which that tariff would inevitably have in future. They noted that, in the actual opinion of the representatives of third countries, all that could at present be done was to make assumptions but they emphasized that, whereas the Six did not rate their own assumptions than mere forecasts, the representatives of third countries maintained that their assumptions must necessarily turn out to be true.

29. The representatives of the Six added, with regard to the problem of proof raised by certain countries, that they could not accept the view that Member States of the European Economic Community would have to prove that no losses would be sustained. According to well-founded GATT precedents, countries which asked for a consultation had to furnish proof of what they claimed to be facts.

30. Recalling the question of the intentions of the Six in case losses were proved, the representatives of the Six pointed out that the question certainly did not arise at present, but should it do so, they would certainly give it their full attention and consider what attitude should be adopted.

31. They said that they would give the competent authorities a full and faithful report on the apprehension which had been voiced.

ANNEX I

Imports of Cocoa Beans, Cocoa Powder, Cocoa Butter and Paste (SITC 072)

In 1956 and 1957

(metric tons and per cent of total imports)

Imports into Destination Imports from Provenance	Belgium-Luxemburg Union Economique Belgo-Luxembourgeoise		France		Germany, Fed. Rep. Allemagne, Rép. Féd.		Italy Italie		Netherlands Pays - Bas		Total		United Kingdom Royaume-Uni		United States Etats-Unis		Japan Japon	
	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957
Total %	16,620 100.0	15,712 100.0	54,618 100.0	62,205 100.0	104,376 100.0	114,233 100.0	22,853 100.0	26,440 100.0	73,425 100.0	79,707 100.0	271,892 100.0	300,297 100.0	97,599 100.0	123,675 100.0	288,430 100.0	269,395 100.0	4,663 100.0	8,070 100.0
Associated Territories Territoires Associés %	2,643 15.9	2,920 18.6	44,965 82.3	49,909 80.2	15,856 15.2	11,957 10.5	7,358 32.1	7,973 28.0	25,781 35.1	26,622 33.4	96,603 35.5	99,381 33.1	1,246 1.3	1,270 1.0	26,519 9.2	32,838 12.2	43 0.9	-
Belgian - belges %	1,605 9.7	1,991 12.7	-	-	1,000 1.0	966 0.9	-	9	614 0.8	2,194 2.7	3,219 1.2	5,160 1.7	-	2	-	-	43 0.9	-
French - français %	1,038 6.2	929 5.9	44,965 82.3	49,909 80.2	14,856 14.2	10,991 9.6	7,358 32.1	7,964 28.0	25,167 34.3	24,428 30.6	93,384 34.3	94,221 31.4	1,246 1.3	1,268 1.0	26,519 9.2	32,838 12.2	-	-
Brazil - Brésil %	969 5.8	744 4.7	665 1.2	179 0.3	21,246 20.4	22,089 19.3	3,851 16.9	2,610 9.2	8,064 11.0	9,229 11.6	34,795 12.8	34,851 11.6	6,838 7.0	7,252 5.9	78,747 27.3	58,333 21.7	2,515 53.9	3,196 39.6
Ghana %	3,380 20.3	3,749 23.9	1,198 2.1	5,399 8.6	48,864 46.8	53,361 46.7	a) -	7,423 26.1	18,443 25.1	14,546 18.2	71,885 26.4	84,478 28.1	33,518 34.3	42,757 34.6	49,564 17.2	49,598 18.4	537 11.5	1,453 18.0
Ceylon - Ceylan %	-	-	-	-	49 -	-	307 1.3	176 0.6	225 0.3	-	581 0.2	176 0.1	83 0.1	-	30 -	-	255 5.5	155 1.9
Dominican Republic République Dominicaine %	-	-	-	-	-	-	-	378 1.3	962 1.3	969 1.2	982 1.3	1,347 0.4	-	-	17,456 6.1	23,587 8.8	-	-
United Kingdom Dependencies Terr. dép. du Royaume-Uni %	1,186 7.1	731 4.6	5,954 9.1	4,840 7.8	6,338 6.1	13,599 11.9	8,945 39.1	7,292 25.6	13,060 17.8	18,863 23.6	35,475 13.0	45,325 15.1	41,718 42.7	55,378 44.8	52,018 18.0	37,224 13.8	410 8.8	1,005 12.4
Nigeria %	176 1.1	30 0.2	290 0.5	4,509 7.2	5,411 5.2	12,956 11.3	8,573 37.5	6,086 21.4	10,499 14.3	17,344 21.7	24,949 9.2	40,925 13.6	39,014 40.0	52,081 42.1	46,564 16.1	32,297 12.0	375 8.0	1,005 12.4
British West Indies Indes occid. brit. %	890 5.4	496 3.2	560 1.0	290 0.5	723 0.7	643 0.6	114 0.5	-	321 0.4	240 0.3	2,608 1.0	1,669 0.6	2,395 2.4	2,402 1.9	5,387 1.9	4,787 1.8	-	-
Portuguese Territories Territoires portugais %	20 0.1	31 0.2	623 1.1	658 1.0	908 0.9	2,265 2.0	83 0.4	111 0.4	3,479 4.7	4,817 6.0	5,113 1.9	7,882 2.6	-	20	50	1,165 0.4	-	-
Indonesia - Indonésie	-	-	-	-	263 0.2	229 0.2	-	-	29	-	292 0.1	229 0.1	-	-	23	-	-	-

Sources : OEEC, Foreign Trade Statistical Bulletins, Series IV - Bulletins Statistiques de l'OECE, Commerce Extérieur, Série IV
Commodity Trade Statistics, United Nations

a) included under United Kingdom Dependencies

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ANNEXE I

Importations de Fèves de Cacao, Poudre de Cacao, Beurre et Pâte de Cacao (CTCI 072)

en 1956 et 1957

(en tonnes métriques et en pourcentage des importations totales)

A N N E X I I

THE TREATY OF ROME

C O C C O A

Submission by Ghana, Brazil, Indonesia
and United Kingdom Delegations

This paper is submitted by the delegations of Ghana, Brazil, Indonesia and the United Kingdom (on behalf of its cocoa-producing dependent territories) for the discussions on cocoa with the Member States of the European Economic Community under Article XXII of the General Agreement.

1. Ever since the decision was taken to associate their overseas territories with the European Economic Community, the Governments of Ghana, Brazil, Indonesia and United Kingdom have expressed concern at the adverse effects which the advantageous treatment afforded under the Treaty to the products of these overseas territories would have on the trade of their countries.

2. So far as cocoa is concerned representatives of these Governments explained their fears in detail in the discussions on this commodity in the Working Party on the Association of Overseas Territories with the European Economic Community which met in the early part of 1958. These views, which were shared by the representatives of all producing countries present, other than the Six, were recorded in L/805/Add.1. Their Governments believe that the arguments presented at that working party conclusively demonstrated that the damage they fear will eventuate, unless specific action is taken by the Community to prevent that damage.

3. In brief, since the common market tariff on cocoa beans under the Treaty of Rome is fixed at 9 per cent (List F) and since the products of the overseas territories of the countries of the European Economic Community are to enter duty-free into the Community, the terms of the Treaty inevitably mean that at the end of the transition period cocoa from the AOT's will enter duty-free into all the markets of the European Economic Community, while that of all other producers will pay a 9 per cent duty. This is to be compared with the present position in which no duties are charged on any imports of cocoa into the Six except for Germany which imposes a non-discriminatory 10 per cent tariff. Even in France where balance-of-payments difficulties have led to quantitative restrictions on imports from outside the franc zone, there have been periods in which cocoa from all sources was admitted free of all restrictions into France.

4. The European cocoa market which will be affected by the new provisions represents in 1957 some 300,000 metric tons or over 30 per cent of world imports, worth at present prices \$200 million. Some 200,000 tons of this did not come from their own overseas territories - Ghana exported 106,000 tons, Brazil 34,000 tons, Nigeria 45,000 tons, Sierra Leone 1,400 tons, Trinidad 1,800 tons, Grenada 400 tons and Indonesia 550 tons. Cocoa is, moreover, of the greatest importance to the economy of these territories. Under normal conditions it is at least 65 per cent of Ghana's exports, 27 per cent of Nigeria's and 60 per cent of Grenada's.

5. The new arrangements defined by the Treaty must inevitably discourage consumption in the Six below what it would otherwise have been, and give a substantial price advantage to AOT producers in the markets of the Six, thus leading to an appreciable fall in the prices received by other producers. Even so, AOT cocoa will be cheaper in the Community than other cocoas (after payment of duty) and importers will divert their purchases away from their established sources of supply to AOT sources. In the words of the Haberler Report the arrangements will be trade-diverting rather than trade-creating.

6. The tendency to instability in the world cocoa market will be aggravated by the creation of this new preferential area and world prices will be adversely affected to the serious detriment of all cocoa producers whether or not they sell to the Six.

7. The trade disturbances will start as soon as the first lowering of the tariffs (in the German market) in favour of the AOT's is made on 1 January 1959. They will be cumulative as each step to implement the Treaty's provisions is taken so that eventually a position will be reached in which third country suppliers of cocoa to the Six will have access to a far smaller market within the Community than they would have had in the absence of those provisions.

8. Moreover, the prospect of a protected market in the Six for at least some 100,000 tons more than their total present production is an existing incentive encouraging farmers in the AOT's to increase their production. The advantages which AOT producers of this and other commodities should reap from the Common Market have been widely commented on by French officials and others, and should now be generally known to producers. The start of discrimination in their favour on 1 January 1959 will give these producers confidence in the eventual creation of the full preferential system and hence encourage them to push ahead with development.

9. Since cocoa trees take many years to come into full bearing, cocoa farmers in the AOT's must start planting soon if they are to get the maximum benefits of the 9 per cent preference when it is in full operation. Per contra this constitutes an immediate threat to the development plans of cocoa farmers in other parts of the world. The certainty of a fall in one of their most important markets and the doubts about the future which this inspires has already caused great alarm and the introduction of discrimination on 1 January next will confirm their fears and strengthen their reluctance to push ahead with plans for expansion.

10. The arrangements of the Six as defined in the Treaty are, therefore, causing a diversion of development plans at this moment, encouraging production in one set of under-developed cocoa-producing countries (the AOT's) at the expense of the rest. The effects of this diversion will not be measurable in trade terms for many years by which time it will be too late to take remedial action without doing serious damage to the interests of the farmers of the AOT's who will have been led to expect a permanent continuance of their favoured position. Only immediate action can put matters right before harm is done to either one set of producers or the other.

11. It is hoped that the Six will appreciate the gravity and imminence of the dangers they are provoking in their present policies on cocoa, that steps will be taken to prevent the initiation of discrimination on 1 January next, and that at a very early date a long-term solution will be evolved which will give cocoa producers all over the world a firm assurance of that free non-discriminatory access to the growing markets of the Six which they enjoyed before the Treaty of Rome.

12. It is assumed that any action which is taken to eliminate the adverse effects of the Common Market tariff on cocoa will not be vitiated by recourse to the provisions of the Treaty which provide scope for other forms of discriminatory action on behalf of the Six's AOT's.

ANNEX III

Reply to the Document on Cocoa submitted by Ghana and the other Delegations which took part in the Consultation

1. The following remarks are made in reply to the memorandum on cocoa submitted by Ghana, Brazil, Indonesia and the United Kingdom and to the statements made by the representatives of those countries at the meeting on 12 November.
2. The representatives of the Six note that the essence of the arguments adduced by those countries concerning the procedures established by the provisions of the Rome Treaty as regards cocoa is contained in the report of the Working Party on the AOT's with the European Economic Community, and that although strictly speaking they have no real case, they consider that the arguments expounded in that report fully justify their apprehensions for the future.
3. The representatives of the Six hope that the following considerations will help to allay the fears which have been expressed and enable the Rome Treaty provisions on cocoa to be viewed in their right perspective.
4. It is apparent to the members of the Community that the real problem regarding cocoa is not the possible long-term effects of the application of a relatively low duty, but rather the question of future equilibrium between production and consumption.
5. The representatives of the Six consider that the data relevant to the cocoa problem have been defined most pertinently by the various international bodies or groups of experts who have given their attention to this question, and that the problem should primarily be examined in the light of those studies. They feel that unless such sources are drawn upon, there is a risk that these questions may be examined without regard to certain factual elements which are essential.
6. It is necessary to start from the premise that the great world markets are interdependent and that prices are based on the statistical position of the product concerned.
7. It follows that the problem of world trade depends on the development of consumption, on the one hand, and production, on the other.

8. Two factors come into play with regard to the development of consumption:

- (a) First of all, the price of cocoa, which is essentially determined by the size of the crop yield. In this connexion, the studies made have shown that a variation of 1 per cent in world tonnage can result in price fluctuations of 4 per cent, while a 10 per cent variation can cause a 46 per cent fluctuation in price.

9. In the absence of any mechanism for stabilizing prices at the international level, excessive increases in price can therefore bring about a drop in consumption.

10. In this connexion, the Swiss representative was able to state during the third session of the FAO Cocoa Study Group that taking into account the suggestions made by Sir Eric Tansley, the creation of a buffer stock, financed and administered by producers and consumers jointly, seems acceptable in principle.

11. The experts are nevertheless of the opinion that, up to the level of 35 cents per lb. consumption is not endangered. In that case, it is difficult to see how it could be threatened by a 9 per cent duty, the rate of that duty being in no way exceptional, all the more so that cocoa beans make up only from 33 to 45 per cent of the finished product and that account should be taken of all the various taxes levied on the latter at the various stages of processing and trade in order to have a complete picture. The actual incidence on the finished product would be only 2 to 4 per cent, whereas the price of the primary product may, over a period of a few months, fluctuate to as much as two or three times a given level.

12. In this connexion, it cannot be said that particularly high taxes are levied on cocoa and that the elimination of the various taxes can be considered, as in the case of other products, as an essential factor for trade expansion.

13. It may be emphasized at this point that the largest consumer among the Six - the Federal Republic of Germany - at present levies a 10 per cent duty which will be lowered by 1 per cent on 1 January 1959; this reduction is the only tariff modification to be made at this stage.

14. Although excessively high taxes may contribute to discourage consumption when prices are high, that is nevertheless a secondary phenomenon which cannot be held responsible for any falling off in the market.

- (b) Next we shall consider the development of consumption and income in the consumer countries.

15. A study by an economist, Mr. Maldant, was published in the periodical "Marchés tropicaux" of 8 March 1958; that study, which was communicated to the FAO, showed how trade in cocoa had grown from 1947 to 1957 at the rate of 2 per cent per annum, and this rate of growth seemed likely to continue if income also continued to rise at the rate observed for the period under consideration.

16. Of course, no general significance can be attributed to a study based on the United States market, which may be liable to some saturation because of the relatively high level of consumption. It has in fact been observed that in certain countries with a low income level, such as Ireland and Finland, consumption was rising faster than in the rest of the world.

17. The fact remains that consumption and the development of income are linked and that, as stated in the FAO study, "since the objective of the Common Market is to raise economic standards, the total consumption of cocoa and chocolate products, which is relatively low in some of the countries, should increase, and benefit also non-associated cocoa-producing countries".

18. It should be borne in mind that the population of the six Common Market countries increases by one million persons each year.

19. At the present time, per capita consumption in the Six is as follows:

France	1.2
Germany	1.7
Italy	0.7
Belgium	1.5
Netherlands	1

representing imports of some 260,000 tons.

20. As a conservative estimate, it seems reasonable to predict that in ten years' time consumption will have risen to between 330,000 and 350,000 tons, unless in the meantime consumption were to be discouraged by a marked price increase which would upset the market.

21. The OEEC report on cocoa states that experts in a great many European countries do not believe that saturation point has been reached in Europe. One may even wonder to what extent supply will be able to meet the needs of growing demand; this brings us to a third point - production prospects.

22. "It seems likely that for several years, as in the recent past, existing manufacturers of cocoa products will feel cocoa to be scarce, and will make no very vigorous attempt to extend their markets." This extract from the OEEC report already referred to is still valid, for there has been no notable change in market conditions since that date. Since 1950, world production of cocoa beans has been of the order of 800,000 tons, with variations, due to climatic factors, which have rarely been more than 10 per cent and show a gradual tendency to decline.

23. It does not seem unreasonable, therefore, to encourage a modest expansion of production, taking into account the justifiable prospects as regards an increase in world population and income.

24. Recent production trends in the AOT's are disappointing:

Exports from the AOT's since	1953	153,000 tons
" " " " "	1954	121,000 "
" " " " "	1955	140,000 "
" " " " "	1956	132,000 "
" " " " "	1957	128,000 "

(Gill and Diffus)

25. In the French Camercons, where according to the CEEEC report the local authorities hoped to achieve production of 75 to 80,000 tons in 1950, the 1958-59 estimates - according to an FAO press bulletin dated 23 October 1958 - are only 55,000 tons, as compared with an average production of 53,000 tons during the period 1951-55, despite considerable investment with a view to improving productivity. In fact, one can only hope that the predictions made by certain members of the AOT's Working Party and recorded in the CEEEC report will be realized. According to those predictions, the preference introduced by the Rome Treaty will lead to an increase of at least 50,000 tons in exports from the AOT's within a period of from fifteen to twenty years.

26. It should be borne in mind that even if this prediction were realized, world markets and prices would only be endangered if the rate of increase were unreasonable; that rate is only 2 per cent per annum, however, and has been so over the past ten years, without taking into account trade with the Eastern countries, and the expansion of trade.

27. It may be concluded from these figures that, on the one hand, production in the AOT's does not show a tendency to increase and, on the other hand, that the figures referred to above as regards the future do not seem likely to disturb the world market and, consequently, to affect prices in a manner harmful to other producing countries.

28. The foregoing is a brief statement of the comments which the representatives of the Six wish to make in response to the document submitted by the delegation of Ghana, together with the delegations of Brazil, Indonesia and the United Kingdom.

29. In present circumstances, the various aspects of the cocoa problem and the arguments adduced by that delegation do not seem to justify any particular apprehensions concerning the effects of the provisions of the Rome Treaty on cocoa.

30. It is noted that the afore-mentioned document refers to production plans. The Six would appreciate receiving further information regarding such plans.

