

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/1817

1 August 1962

Limited Distribution

SPECIAL GROUP ON TRADE IN TROPICAL PRODUCTS

Record of Discussions and Conclusions Reached at the Meeting held from 4-8 June 1962

A. INTRODUCTION

1. The Special Group was established by the Council in February 1962 following a Recommendation of Committee III (L/1732) that such a group should be established.

2. The terms of reference of the Special Group are as follows:

"Taking into account all factors bearing on present and future problems in international trade in tropical products (cocoa, coffee, tea, vegetable seeds and oils and tropical timber), to consider ways of overcoming difficulties confronting less-developed countries exporting these products and to make appropriate proposals bearing in mind, among other things, the Conclusions of the ministerial meeting and the Decision of 7 December 1961".

3. The following countries participated as members of the Group:

Brazil	Indonesia
Ceylon	Nigeria
EEC	Sweden
Ghana	United Kingdom
India	United States

4. The following countries were represented by observers:

Australia	Japan	Tanganyika
Canada	Portugal	Yugoslavia
Denmark	Somalia	
Finland	Switzerland	

5. The following organizations were also represented:

FAO	OECD
Organization of American States	United Nations

6. Mr. E. Wyndham White, Executive Secretary, was Chairman of the meeting.

7. The Chairman recalled that the Council had endorsed the proposal of Committee III that the States associated with the EEC should be invited to participate in the Group's work and requested him to consult with these States concerning their representation. He had accordingly visited Brussels and had consulted with representatives of the associated States. These representatives had stressed their interest in the meeting of the Group. They recognized that it would be preferable if solutions to the problems involved could be found on a world-wide rather than on a regional basis. Unfortunately, the timing of important meetings in Brussels in connexion with the extension of the association arrangements made it impossible for their governments, in view of the shortage of personnel, to be represented at the Group's meeting. They were anxious that this reason for their absence from the Group's meeting should be fully understood.

B. GENERAL EXCHANGE OF VIEWS

8. The Group had before it the ministerial Conclusions and Declaration on the Promotion of the Trade of Less-developed Countries of 30 November 1961 and noted the importance and relevance of the commitments undertaken by governments in the Declaration. The Group also had before it the specific proposal put forward by Nigeria relating to duty-free entry for tropical products (L/1608) and noted that most Ministers at their meeting in November 1961 were of the view that this proposal should be given careful consideration.

9. It was agreed that there was no need for the Group to discuss in any detail the facts of the situation with regard to trade in tropical products. The facts were already well known and ample documentation was available as a result of the work of Committee III, the secretariat and of other international bodies. Over a long period Committee III had made detailed studies of the obstacles impeding the expansion of exports of the tropical products under consideration.

10. The representative of the United States, having briefly described the situation in regard to coffee, cocoa, tea, bananas, oilseeds and vegetable oils, and tropical timber, gave his delegation's views on the major problems which arose and outlined possible guidelines and courses of action which the Group might consider adopting. The full text of the statement made by the United States representative is reproduced in the Annex of this record.

11. Several members commented on the United States statement. The representative of Ceylon stressed the need not to underestimate the difficulties inherent in the present situation and future prospects for tea. Ceylon did not wish the situation in regard to tea to deteriorate and become like that which at present existed, for example, in the case of coffee. Steps should be taken to prevent a really serious situation arising. Continuing, the representative of Ceylon said that one further consideration should be added to those put forward by the representative of the United States. This was the question of

tariff differentiation in Europe as between raw materials and semi-processed products. This differentiation should be progressively removed in the interests of the economic development of the less-developed countries.

12. Commenting on the possible guidelines proposed by the United States representative, the representative of Brazil said that, while he entirely agreed that the approaches to be adopted should be world-wide in character, it should be recognized that some arrangements intended ultimately to have a world-wide scope could with advantage begin on a regional basis. The proposed compensatory financing scheme for Latin America, which arose out of the special ministerial meeting of the Inter-American Economic and Social Council at Punta del Este in August 1961, was an example of this.

13. The representative of Brazil pointed out that the comments he had just made applied equally to the question of the multilateral approach.

14. Strongly supporting the non-discriminatory approach advocated in the third of the proposed guidelines, the representative of Brazil said that his Government's efforts to obtain relief from the adverse effects of the discrimination resulting from the Treaty of Rome were well-known.

15. The spokesman for the European Economic Community pointed out that the difficulties which existed in international commodity markets could not be said to have resulted from the establishment of the Community; these difficulties had existed before the Community came into being. As regards the present meeting of the Group, it was unfortunate that this was being held at the same time as discussions of fundamental importance were going on elsewhere between the Community and the United Kingdom and between the Community and the associated States. As it was not possible to anticipate the outcome of these discussions, certain essential elements necessary for a full discussion by the Group were inevitably lacking. Moreover, it was not possible to analyse satisfactorily the problems before the Group without the participation of the associated States. The Community hoped that these States would be able to participate in the Group's work in the near future and help in the search for solutions to these problems.

16. The spokesman for the Community then commented on the possible guidelines proposed by the representative of the United States. With reference to the multilateral or world-wide approach, as opposed to the bilateral or regional approach, he said it was certainly to be hoped that, in the not too distant future, the approach to the problems involved would be on a world-wide basis. The fact remained, however, that the efforts so far made in this direction had only had very limited results. The gap in world-wide action in the face of the deteriorating situation in international commodity markets, taken together with historical factors, went a long way towards explaining the existing organization of the markets. Apart from these considerations, regionalism had its *raison d'être* and its value and this fact should not be ignored. It was not an end in itself but it was a valuable step forward while world-wide solutions were being sought.

17. In connexion with the problems of non-discrimination and of internal taxes referred to in the third and fourth of the proposed guidelines, the spokesman for the Community said he would simply draw attention to the ministerial Declaration, which contained specific paragraphs on these problems. He added that, under the Treaty of Rome, national fiscal policies remained within the sovereignty of each member State and the Ministers concerned were giving attention to this problem. As spokesman for the Community as a whole he could not, therefore, deal with the question of internal taxes although he could say that, in the view of the Community, this matter was given too much weight when seen against the background of the overall problems that arose in connexion with the organization of commodity markets.

18. The spokesman for the Community said that the Community fully supported the commodity-by-commodity approach advocated in the proposed guidelines. It was to be hoped that, in addition to the negotiation of further international commodity agreements, there would be increased participation in certain of the existing agreements.

19. As regards supplementing the commodity-by-commodity approach by a more general approach, the spokesman for the Community stressed that compensatory financing, while important, should only be considered a short-term palliative. In the long term, the problems were those of market organization and stability in the context of the economic development of less-developed countries.

20. With reference to the final guideline proposed by the United States representative, the spokesman for the Community said that the Community fully agreed that the problems of commodity trade were only one aspect of the overall problems that faced less-developed countries in their economic development. The problems that arose in commodity trade should, therefore, be seen within this broader framework.

21. The spokesman for the Community then commented on the possible courses of action suggested by the United States representative in his statement.

22. In the first place, he said, the Community doubted the advisability of trying to improve on or supplement the principles contained in the ministerial Declaration. There would appear to be no good reason for doing this. As regards the second proposed course of action, it could surely be assumed that governments participating in a negotiating conference on a particular commodity would be fully alive to their obligations, including those under the ministerial Declaration, and to the need to interpret these constructively and with flexibility in the interests of reaching agreement. Thirdly, if it were considered necessary to establish a Sub-Group to examine the problems of the tropical products under discussion, other than coffee and cocoa, consideration would have to be given to the question of the participation of experts, not only from the States associated with the Community, but also perhaps from countries which were not contracting parties to GATT.

23. Commenting on the fourth course of action proposed by the United States representative, the spokesman for the Community referred to what he had said earlier on the subject of duty-free entry. He added that the difficulties involved were illustrated, for example, by the terms in which the recent trade proposals of President Kennedy relevant to this problem had been formulated. In conclusion, the spokesman for the Community expressed the Community's warm support for the fifth course of action proposed by the United States representative, namely the development of some mechanism for linking up what was being done in the trade field with the work being done in connexion with economic development in certain other bodies.

24. A number of members stressed the need for urgent action to implement the ministerial Declaration, which had been adopted by Ministers over six months ago. The view was expressed that the Group should proceed, in accordance with the Ministers' Conclusions (L/1657, page 4), "to establish specific programmes of action, and where feasible target terminal dates, for progressive reduction and elimination of barriers to the exports of less-developed countries". A proposal to achieve this aim was submitted to the Group by Brazil and Nigeria (Spec(62)154).

25. The representative of Nigeria, while recognizing the value of the guidelines proposed by the United States representative, expressed the fear that the consideration of more general ideas could cause attention to be diverted from the Nigerian proposal for duty-free entry. This was a concrete proposal which had been put forward before the ministerial meeting. It had largely motivated the establishment of the Group and should be given priority in the Group's work. Several members supported the view that consideration of the Nigerian proposal should be given priority.

26. Following this general exchange of views, the Group proceeded to consider specific proposals, beginning with the Nigerian proposal (L/1608) for duty-free entry.

C. DUTY-FREE ENTRY FOR TROPICAL PRODUCTS

27. The representative of Brazil strongly supported the Nigerian proposal. He pointed out that tariffs on the products under consideration impeded consumption and the expansion of trade. Less-developed countries needed increased export earnings to finance their imports of capital goods. While, in the short term, financial aid was a welcome palliative, it was desirable that these imports of capital goods should be financed through export earnings. By and large, the products concerned were not produced in the important consuming countries. There was, therefore, no question of protecting domestic production; on the contrary, the elimination of duties should benefit consumers.

28. It was also pointed out by the representative of Brazil that less-developed countries which were not associated States of the EEC were confronted, not only by serious trade barriers, but also by discrimination exercised in favour of the associated States by the EEC. It was generally accepted that tariff

discrimination on tropical products was trade-diverting and not trade-creating. The difficulties facing the associated States and their need for increased export earnings was fully recognized, but trade discrimination was not the correct way of assisting them. There were other forms of assistance which could more desirably be used and which would not impede the aim of increased trade on a world-wide basis. Brazil wished the Group to recommend acceptance of the Nigerian proposal. If the Nigerian proposal could not immediately be accepted, the least that should be done would be to look upon the duties concerned as essentially temporary and transitional in character, to draw up a time-table for their elimination and, in the meanwhile, to give financial compensation to those less-developed countries adversely affected by the present trade discrimination.

29. The representative of India also stressed the importance of the Nigerian proposal. Duty-free entry would permit all producers of tropical products to receive the same tariff treatment. If, in the common interest, it was agreed that all tropical products should be accorded duty-free entry, India might be prepared to consider giving up the Commonwealth preferences from which it at present benefited. Should, however, duty-free entry not be agreed at present, existing preferences should not be disturbed.

30. In the view of the representative of Indonesia, it would benefit both the associated States of the EEC and other less-developed countries if their tropical products entered duty-free without any discrimination. The Group should concentrate its attention on this question of duty-free entry. Indonesia recognized the difficulties of the associated States and their need to expand their export income but, in Indonesia's view, the discriminatory measures from which these States at present benefited were contrary to the provisions of the GATT.

31. The representative of Ghana also considered that the main problem was the question of duty-free entry. When considering the possibilities that arose in this connexion from the United States trade legislation, it was to be hoped that the EEC would agree to joint action for duty-free entry, not only in the case of those products on which the United States at present applied a duty, but also in the case of those products which entered the United States duty free.

32. Representatives of producing countries asked whether the industrialized countries would at least accept the principle of duty-free entry. It was recognized that there were practical problems, such as the question of compensation during a transitional period for those less-developed countries which would be giving up the preferences, but these could be discussed once the principle of duty-free entry had been accepted.

33. The representative of the United States said that his delegation fully supported the Nigerian proposal and, if the new United States trade legislation were approved, his Government would expect to implement the proposal in co-operation with the other industrialized countries.

34. The representative of Sweden expressed his Government's willingness to discuss at once multilateral arrangements for the elimination of duties on tropical products. His delegation would like to see specific action and an agreed time-table for the elimination of duties.

35. The spokesman for the European Economic Community said he had already referred to the negotiations going on between the Community and the associated States. While these negotiations were in progress, and as representatives of the States which benefited from the preferences were not present at the Group's meeting to express their opinions, he was not in a position to comment on the question of the Community's attitude to the principle of duty-free entry. The problem of preferences should be seen in the regional context and against a historical background. As he had already pointed out, there was a need for the organization of markets on a world scale, so as to enable the economies of those countries at present benefiting from preferences to achieve a balanced development without those preferences.

36. Some members of the Group drew attention to the fact that certain arrangements were under contemplation or negotiation by the EEC which could result in the establishment of preferential arrangements beyond those contained in the 1947 settlement upon which the GATT is based. If such arrangements were implemented and there was delay in implementing the Nigerian proposal there was, in the view of these members, real risk of damage to non-preferential suppliers and, as these members had been willing to study the problems of preferential suppliers which might result from the implementation of the Nigerian proposals, it was reasonable that consideration should also be given to their problems.

37. Without going into the legal problems which obviously do not fall within the terms of reference of the Special Group, the representatives of the EEC pointed out that, in their opinion, it was by no means certain that the agreements now under study or being negotiated would have a strong influence on trade patterns in the tropical products with which the Group is dealing. The possible effects of such agreements could be realistically appreciated in fact - and this in the light of the situation on the world markets for the products concerned - only when all the component elements of such agreements were known, in particular the nature of the products referred to, the degree of preferential margins and their geographical scope.

D. REVENUE DUTIES AND FISCAL CHARGES

38. The Group noted that the Nigerian proposal in document L/1608 also pressed for the removal of internal fiscal charges. It further noted that, whereas most Ministers had agreed that the question of duty-free entry should be given careful consideration, all Ministers had accepted that part of the ministerial Declaration of 30 November relating to the removal of revenue duties and fiscal charges. In a reference to the report of Committee III on its meeting in May 1962 (L/1768), the Group welcomed the action taken by the United Kingdom

to eliminate the fiscal element in the United Kingdom customs tariffs on coffee and cocoa and the action proposed by Italy involving a 50 per cent reduction in the present consumption tax on cocoa and cocoa products. The Group felt that further studies were not called for. What was required was the implementation of the relevant part of the ministerial Declaration and, if more progress in this direction was to be made, further consideration of the matter at the ministerial level was necessary.

39. It was pointed out in the Group that there had recently been various suggestions relating to an increase in financial assistance to less-developed countries. This was bound to represent a major effort on the part of the donor governments concerned and it was paradoxical to draw on fiscal resources to help less-developed countries and at the same time to refuse to remove trade obstacles of a fiscal character. The liberalization of trade was a much more direct form of aid than any other.

E. ESTABLISHMENT OF SUB-GROUP

40. It was suggested in the Group that a Sub-Group should be set up to examine certain aspects of the problems that had been discussed. Some members, while agreeing to the establishment of a Sub-Group, stressed the need for the Sub-Group's terms of reference to be such that its work would represent a definite move in the direction of specific action.

F. CONCLUSIONS

41. At the end of its discussions the Group adopted the following conclusions:

I. GENERAL

42. Most members were of the view that the Nigerian proposal relating to duty-free entry for tropical products (L/1608) should be implemented at an early date. In implementing this proposal, account should be taken of the situation of those countries which at present enjoy preferential access to markets and, concurrently with the move towards duty-free entry, action should be considered to meet their adjustment problems as well as the problems of those countries which are adversely affected by the continuation of the preferences during the transitional period, in order to maintain and accelerate the economic development of both groups of countries.

43. Other members of the Group pointed out that, while most Ministers had agreed that the Nigerian proposal should be given careful consideration, their Ministers had taken no decision on the principle of duty-free entry and it was the view of these members that further examination of the problems involved would be a pre-requisite to their being able to come to any conclusion in this matter.

44. Having regard to the considerations set out in paragraphs 42 and 43 above, the Group agreed to establish a Sub-Group with the terms of reference set out below.

II. ESTABLISHMENT OF SUB-GROUP

45. The Group decided on the following terms of reference for the Sub-Group, it being understood that the work should relate, on a commodity-by-commodity basis, in the first instance to the following products: cocoa, coffee, tea, vegetable seeds and oils, tropical timber and bananas. The Sub-Group should:

- (a) appraise in respect of an illustrative number of developing countries the importance to developing countries of the preferential or other sheltered access they enjoy in certain important markets in the context of their economic needs;
- (b) appraise in respect of an illustrative number of developing countries the effects on their trade of the preferential or other sheltered access enjoyed by their competitors;
- (c) in case of both (a) and (b) analyse the effects on these countries if arrangements for such preferential access were to be removed;
- (d) study the position of tropical products (other than coffee and cocoa)¹ with particular reference to special arrangements affecting trade as well as production and consumption;
- (e) consider the problems arising from the existence of protective tariffs and other barriers to trade;
- (f) examine all possible ways and means, including the specific proposals and suggestions made by Brazil, Nigeria and the United States in the course of the discussions of the Group, for solving the problems and attenuating the difficulties that may be revealed in the aforementioned studies and propose specific courses of action to this end.

46. The Group requested the Executive Secretary to make arrangements for appropriate collaboration with national experts and with international organizations in support of the activities of the Sub-Group.

47. The Group requested the Executive Secretary to submit a progress report on the work of the Sub-Group to the twentieth session of the CONTRACTING PARTIES and the Sub-Group should submit a report to a meeting of the Special Group in the month of November 1962.

¹See Section V.

III. IMPACT OF MODIFICATION OF PREFERENTIAL
ARRANGEMENTS THROUGH CURRENT NEGOTIATIONS

48. It was agreed that the matters referred to in paragraphs 36 and 37 of the introductory section of this report are included in the terms of reference of the Sub-Group.

IV. REVENUE DUTIES AND FISCAL CHARGES

49. It was pointed out that the Ministers had agreed in their Declaration of 30 November 1961 that the removal or considerable reduction of revenue duties and fiscal charges in industrialized countries would be a useful contribution to the foreign exchange earnings of the less-developed countries. It was also pointed out that Committee III had agreed to consider the proposal for a two-stage reduction of revenue duties and internal taxes on cocoa, tea and coffee in the light of the discussions of this Group.

50. Members of the Group expressed their great disappointment that little progress had been made in the implementation of this part of the ministerial Declaration, the more so as it need not wait on collective action. Little or no progress had been made in some countries and there appeared to be little prospect of substantial progress being made in the near future. Accordingly they can only suggest that the CONTRACTING PARTIES should recommend further discussion of the question at ministerial level at an early date, with a view particularly to considering the difficulties which are delaying the implementation of the ministerial Declaration insofar as it relates to revenue duties and fiscal charges and what steps could be taken to speed up such implementation.

V. INTERNATIONAL COFFEE AND COCOA NEGOTIATIONS

51. The Group considered that the forthcoming negotiations for the conclusion of an international coffee agreement and of an international cocoa agreement afford appropriate occasions for observing the guiding principles embodied in the ministerial Declaration of 30 November 1961 to the fullest extent possible with the object of reducing in the near future obstacles to exports of less-developed countries.

ANNEX

Special Group on Trade in Tropical Products

Statement made by Mr. W.M. Blumenthal, United States Delegation,
on 5 June 1962

Mr. Chairman, to begin with I would like to say that my Government considers that these discussions in the Group on Tropical Products must necessarily encompass a rather broad scope. I should like to refer to the terms of reference¹ of the Group which, among other things, are "to consider ways of overcoming difficulties confronting less-developed countries exporting these products, and to make appropriate proposals bearing in mind etc.". In our view it is necessary to bear in mind, therefore, the existing patterns of trade with regard to the more important tropical products in order to understand what the difficulties are. We would, therefore, like to begin by summarizing very briefly our understanding of these trade patterns. This will be very brief, because of the excellent work that has already been done by the secretariat and, for that matter, has been done for quite some time by various bodies studying existing trade problems in tropical products.

By way of introduction, Mr. Chairman, we would like to say, secondly, that in the view of the United States Government, there is need to reach results speedily in the difficult area that we are dealing with here. For this reason we welcomed yesterday afternoon the statement of the distinguished delegate of Brazil and his call for "constructive specificity". We have done a great deal of talking over the years on these problems and, because of the important developments that are presently taking shape in various areas and because of the urgent need for specific action which is reflected in the weakness of the market for these products and the adverse prognostications which have been made with regard to the future, my Government feels very strongly that such specific action needs to be taken at the earliest possible point of time. Without question these products are of tremendous importance to the economies of many countries and are the central point around which many economies revolve; there is certainly no need for me to emphasize their vital importance to many countries in Latin America, Africa and Asia. The specific developments to which I refer, Mr. Chairman, are, of course, the discussions that are going on between the United Kingdom and the European Economic Community for the accession of the United Kingdom to the Community and, secondly, the discussions that are going forward between the Associated Overseas Countries and Territories and the European Economic Community regarding a new association agreement. Further, it is a fact that last December, six months ago, the Declaration on the Promotion of Trade of the Less-Developed Countries was adopted by the GATT and it is incumbent upon us, having regard to this lapse of six months, to move ahead as rapidly as we can now in implementing this Declaration.

¹The terms of reference are contained in document L/1751

Thirdly, by way of introduction, Mr. Chairman, may I say that the interest of the United States Government in this whole matter of seeking specific and speedy action is part and parcel of our overall policy on commodities with respect to which we have been clearly on record for some time. I had the pleasure of delivering a statement outlining our up-to-date views on this subject about two weeks ago in the United Nations Commission on International Commodity Trade. I believe that, if this statement is read alongside a similar statement which was delivered a year ago, the views and the policies of the United States Government with regard to commodities in general, not only tropical products, will be clear. The fact that we are concerned with these commodities is not only due to the fact that we are the single most important consumer of most of these commodities, but also because of our great interest in the efforts towards economic development being made by so many of our friends in various parts of the world and of the considerable effort which our Government is making to assist this development. The very fact that we are spending billions of dollars a year in assisting these economic development efforts, clearly demonstrates that we have a very close interest in the development of sound trade patterns and of export earnings from tropical products and other commodities. These are, in effect, two aspects of the same general problem and one could not possibly think and work on economic development without working seriously on commodity problems.

I would like now to cite briefly certain facts with regard to the major tropical commodities, relying primarily on the information which is available to the delegates as a result of the work done by the secretariat. Secondly, I would like to summarize for my colleagues what we consider to be the major problems that emerge from this analysis of present trade patterns. I would thereafter, as a third step, like to suggest a set of guidelines that might underlie the framing of specific courses of action. Fourthly, I would like to be so bold as to suggest certain courses of action that might naturally flow from guidelines of the kind that we have in mind.

Incidentally, I would like to emphasize that this outline of the problems is intended to be indicative rather than all-inclusive. The same comment needs to be made with regard to the guidelines and the courses of action that we will be proposing. We are entirely open-minded with regard to the framing of these additional concepts and the courses of action that will eventually emerge, but we do want to see progress and action.

I would like to talk briefly with regard to the trade patterns of six products. I think it needs to be said that the situation with regard to four of these six is somewhat different than it is for the other two. The four that fall into the first general group in our opinion, Mr. Chairman, are coffee, cocoa, tea and bananas. These happen to be products for which there is no substitute available outside of strictly tropical areas. The other two, oilseeds and tropical woods, are somewhat different in that these are groups of commodities for which there are substitutes and which are directly competing

with a whole wide range of inter-related commodities produced outside the tropical areas. This does not mean that, in our view, oilseeds and tropical woods are not equally important. They are important of course, and we must talk about them in great detail. It does mean, however, that specific solutions are more difficult to come by with regard to tropical woods and oilseeds, simply because the complexities and problems involved are greater than in coffee, cocoa, tea and bananas. These latter commodities are strictly tropical products grown only in the tropical areas. There are no substitutes available - at least I have not yet heard of a synthetic banana - and, although some years ago there was some talk of the development of synthetic coffee, that rather frightening suggestion seems to have receded from the scene. Let us hope that it will stay where it is for a long time to come.

With regard to coffee, Mr. Chairman, the situation is rather clear. Coffee is the second or third most important item in international trade after petroleum. We know that world trade in coffee is at the level of about 2 billion dollars a year; that it is of importance to fifteen countries in Latin America; that there are a sizeable number of African countries for whom coffee is the mainstay of their economy; and that, for some countries, the percentage of total export earnings that is derived from coffee ranges above 70 per cent. It is presently 72 per cent for Colombia for example, and there are certain other countries where it is also extremely high. Because of the drop in coffee prices in recent years, however, the percentage has declined. Unfortunately this has not been due to diversification of the economy but simply to a drop in export earnings from coffee. In Brazil, for example, presently a little more than 50 per cent of total export earnings is derived from coffee. To a large extent the decline in coffee's share of total export earnings in Brazil has been due to a fall in coffee prices.

The supply/demand situation in coffee, Mr. Chairman, is very unfavourable at the moment. There are, as we know, extensive surpluses available in the world and all predictions indicate the generation of larger stocks in the future. Demand tends in most consuming areas of the world to increase generally in line with population increases. In present price ranges the price elasticity of demand for coffee is quite low. We have in addition, impediments to consumption of coffee in the world that are rather well known. There are internal taxes in some countries. There is a duty levied on coffee in some countries. There are special arrangements between certain exporting and certain importing countries. As a result of these duties and taxes, the retail price of coffee is greatly increased. In the case of Germany, for example, the sum total of duties and taxes amount to 117 per cent of the import value of coffee. In Italy it is virtually the same. There are differential tariff arrangements in effect for certain countries in Europe and there is in addition special pricing in countries with so-called centrally directed economies. For example, the price of a pound of coffee in the Soviet Union is something like seven dollars a pound, and, as a result, per capita consumption of coffee is very low.

It is clear, therefore, that there are a number of major problems in trying to develop better patterns of trade in coffee and a better allocation of resources.

The situation in cocoa, Mr. Chairman, although not as dismal as it is for coffee, is not very good. Production is definitely increasing faster than consumption. Again, there are countries which rely to a very large extent on export earnings from cocoa. In Ghana, for example, the figure is 59 per cent. Fortunately, there are not as many countries which derive as high a percentage of their total earnings from cocoa as there are with respect to coffee. In the Camerouns I believe the figure is 35 per cent; Nigeria 27 per cent; Ivory Coast 22 per cent; Brazil 6 per cent.

We have also, the more favourable factor that in the case of cocoa the price elasticity of demand at the moment is considerably higher than it is for coffee. In the United States, for example, consumption of cocoa has been increasing in the last two or three years by about 10 per cent a year, which is quite a remarkable figure. Incidentally, this increase has accompanied a decrease in the price for cocoa. Thus, in the case of cocoa there is at least one compensating factor for falling prices; the overall volume of consumption has responded favourably to lower prices. In cocoa too, there are special arrangements in effect. There is a common external tariff in sight for the European Economic Community which is discriminatory between some countries as against others. We have the same impediments to consumption through the levying of taxes and duties on cocoa in some countries. In the case of both coffee and cocoa there are negotiations scheduled for world-wide producer-consumer agreements which are of considerable importance. This is another similarity between these two commodities. A United Nations coffee conference is scheduled to begin 9 July and the Cocoa Study Group has just decided to hold a producer-consumer negotiating conference in the first two months of 1963.

Let me then move to tea, Mr. Chairman, where the pattern of trade is somewhat more favourable. Here again there have recently been increases in output. The main tea-producing countries, India and Ceylon, have averaged production increases of about 7 per cent per annum over the last few years. Consumption has increased by only 2 to 3 per cent a year. The results of this gap have not yet reached critical proportions and there has been considerable price stability in tea. The level of prices today for tea is about the same as the average for the period 1953/57. (Incidentally, a rather interesting fact if I may briefly revert to coffee to compare it with the fact that I have just mentioned. In coffee I noticed yesterday, Mr. Chairman, that there is remarkable stability in prices - the real price of coffee today is almost exactly the same as the price around 1900. I think this is an interesting fact to be borne in mind and perhaps shows more clearly than anything else, particularly if we compare the prices of certain manufactured goods, the predicament of countries who rely heavily on coffee exports.) The combination of taxes and import duties on tea in Germany again represents 94 per cent of the total value and in Italy over 50 per cent.

I want to move on to another commodity which we consider to be of great importance in international trade, namely, bananas. In bananas there has been a considerable weakening of prices over the last few years and a considerable increase in production. This is primarily due to the fact that Ecuador has entered the world market for bananas in the last few years and is now the single most important producer of bananas, accounting for 24 per cent of total world exports. Banana trade patterns are affected by taste preferences so that when one talks about bananas one has to distinguish between the different varieties. Bananas are further affected by the fact that in certain instances they are produced by countries where the possibilities of shifting into other productive activities are much more limited than they are, for example, if one takes the case of coffee in Brazil.

The importance of banana exports is extremely great for some countries and represents two thirds of export earnings for Ecuador and Panama, almost two thirds for Somalia and almost 40 per cent for the French West Indies. Bananas are also subject to an intricate set of special arrangements between the Associated Overseas Countries and Territories and the European Economic Community, arrangements which are discriminatory in character. The United Kingdom and France impose quantitative restrictions on banana imports from other than their associated countries and Italy, through a government monopoly, reserves its market almost entirely for Somalia.

I then move on to oilseeds and vegetable oils. Here, Mr. Chairman, the situation is characterized by the fact that vegetable oils from both tropical and temperate zone countries compete with each other. Soybean exports from the United States are included in this competition, all of which affects prices and trade.

As regards the exporting areas, Africa accounts for about 30 per cent of total world oilseed and vegetable oil exports, Asia 29 per cent and North America 26 per cent. Latin America is not a major factor. The supply/demand situation needs careful watching so that developing problems can be recognized and considered at an early stage.

Finally I would like to mention tropical woods where the picture is somewhat more stable than with regard to the other products. Here the expansion of supply depends in large measure on investment in transportation and in other facilities which permit the exploitation of timber reserves. Demand in consuming countries is simply a function of the general growth of the economy and, to some extent, of changes in consumer tastes. Overall demand tends to respond to income but as a result of changes in taste, demand for individual woods may vary radically from one year to another. In tropical woods the EEC common external tariff will, I believe, be 5 per cent on tropical hardwood logs and 10 per cent on sawn wood whereas in Germany and the Benelux countries they were in the past admitted duty free. The United Kingdom has a commonwealth preference on some types of about 10 per cent.

This very rapid and incomplete survey of the actual situation, Mr. Chairman, indicates that there are a series of important and difficult problems that we must face. Let me summarize our view of what the major ones are. First of all, in virtually every case the existence of demand/supply imbalances is reflected in turn by downward trends in prices, and in the case of some commodities, like coffee, that can be stored, the existence of large, and, in some cases, increasing surplus stocks. Any solution to be adopted, therefore, must take into account the need to improve the balance by expanding demand and by holding production within the limit of what can actually be consumed in the world.

This, in fact, is the second problem I would like to mention: how to increase demand and limit production for these tropical products. On the demand side, efforts to expand consumption raise problems of how to reduce internal taxes which restrict demand; and of how to reduce and eliminate tariffs, which have the effect of restricting trade in these products. It is in this context that the Nigerian proposal assumes particular importance. I shall return to this point later. On the supply side, some equally difficult problems must be faced. The existence of large and growing surpluses brings us face to face with the question of how to control production, of what commitments the producing countries should undertake in this regard, of what they are financially and otherwise able to do to restrict output to reasonable levels. Similarly, it raises the problem of the kind of commitments consuming countries might undertake to support diversification programmes and to assist the producing countries in other ways to achieve meaningful means of production control. I think this is a very important point which is sometimes overlooked. In this regard I wish to point particularly to the draft coffee agreement which contains provisions dealing with this matter. In the opinion of my Government, such a provision is absolutely essential. Producing countries must make commitments to put their production houses in order, so to speak. Consuming country members of the agreement could commit themselves to support these efforts.

It does no good to seek remedies for declining prices of raw materials if raw materials production is permitted to increase without limit. As a result of the scientific revolution, productivity increases are spreading to tropical as well as non-tropical agriculture. No effort to stabilize prices or increase earnings can be successful over the long run, if it does not take this fact into account and include a mechanism for production control.

The third problem, Mr. Chairman, arises from the rapid breaking up of old trade patterns. I have already referred to the negotiations that are being carried on between the United Kingdom and the EEC and to the discussions presently in progress between the Associated Overseas Countries and the EEC. We are, in other words, in a period of rapid change and the problem is that if we don't act quickly events may overtake us. These changes present us with a golden opportunity, but we must act quickly. Global patterns of trade are also changing because of the rise of new, independent nations in the producing areas. The colonial patterns have, in effect, broken up. New

independent countries have come into being and the trade patterns which existed in the past are not likely to continue. A further factor making for the development of new trade arrangements arises from the fact that virtually all consuming countries now recognize the importance of producer-consumer co-operation and the desirability of negotiating commodity agreements for certain commodities. Many consuming countries are also heavily committed to aid economic development in general. In other words, Mr. Chairman, we are facing an entirely new situation which must reflect itself in new and improved trade relations.

The fourth problem, Mr. Chairman, is the existence of certain special arrangements in the trade of these products which are of a discriminatory nature and which distort the efficient allocation of resources, both in the country receiving preferential treatment, and in the country adversely affected by discrimination.

We would submit that while these arrangements have had important beneficial effects, helping to stabilize the export earnings of these countries and by making it possible for them to sell their products, the problem is now how to move away from these arrangements and substitute for them new world-wide arrangements which will provide new and better benefits for developing countries. These benefits would have to be at least as good - I would say, better - than those afforded by past and present arrangements. If we are able to do this, we shall achieve a better allocation of resources in all producing countries - one that increases productivity, one that guides production to those areas where it will take place on the most efficient basis, and one that brings about diversification of these economies and gets them away from undue reliance on a few tropical products.

Mr. Chairman, I should now like to turn to what might be guidelines for future action with regard to trade in tropical products.

At the outset I would suggest that we have an excellent set of guidelines in the Declaration of 7 December 1961. It is the most comprehensive statement of the principles that ought to underlie the promotion of the trade of the less-developed countries, which, of course, includes tropical products. I would add that this represented a great step forward, but I think it would be extremely useful if we could expand these principles, adopting certain additional guidelines, as necessary, to underline our efforts to expand trade in these products. We would suggest as among these guidelines the following points:

First, the approaches we select must be world-wide in character because the problems with which we are dealing are in fact world-wide in character. It is not possible to find solutions solely on a regional basis, since

consuming countries are inter-locked in their trading relations with the producing countries. The best allocation of resources and the greatest gains from trade are achieved in a world-wide context.

Secondly, and for similar reasons, I would suggest that any approaches we adopt be multilateral in nature.

Third, I would suggest that the approaches be non-discriminatory in character. Discrimination is contrary to the principles of the GATT to which we all subscribe. Where discrimination exists it should be clearly recognized as being temporary and transitional in nature. If it must be continued for a temporary and transitional period, it should be coupled with provision for compensatory benefits to those countries which are disadvantaged as a result of the continuation of such discrimination. These compensatory benefits should further the development programmes of those countries which suffer from the perpetuation of discrimination. Our overall objective should be, however, the elimination of the discriminatory element.

Fourth, tropical products - and I would say first and foremost those products which are exclusively tropical, which are produced only in tropical areas, and which have no substitutes produced in other areas - should not be taxed. Taxes inhibit the consumption of these products with adverse effects on the prospects of the developing countries, countries which have difficulties in any case. I think one of the most important principles is that there should be a movement away from the traditional pattern whereby, in certain areas, these products have been taxed for revenue purposes.

Fifth, we should proceed to examine particular problems on a commodity-by-commodity basis. It is a fact that the problems of coffee are not the problems of hardwood and the problems of oilseeds are not the problems of cocoa. Insofar as there are certain underlying similarities in these problems, it would be well to adopt a general approach to them. In other respects, however, we must proceed on a commodity-by-commodity basis. Mr. Chairman, there are already in existence certain commodity organs for some of these products. They have done and are doing valuable work. I refer to the Coffee Study Group and to the forthcoming meeting to negotiate a coffee agreement. I also refer to the work of the Cocoa Study Group and to its decision to meet in early 1963 to negotiate on a cocoa agreement. In fact a commodity-by-commodity approach is now in existence. We must continue it because even if there is agreement on new arrangements for coffee or cocoa, other products are also important to many countries. The problems of trade in these commodities, say tea or tropical woods, are different from those of coffee or cocoa and must also be considered separately.

Sixth, I would say that where possible the commodity-by-commodity approach should be supplemented by a more general approach which could be equally well applied across the board to all commodities.

For example, the United States Government is very interested in the proposals for compensatory financing which were discussed in some detail at the recent meetings of the Commission on International Commodity Trade in Rome. One of the important benefits that has accrued to some of the African countries associated with European metropolitan areas in the past has been the stability of their earnings. We feel that stability (or the threat of instability) is an important factor - not the only factor but a very important one - in commodity trade. Possibly fluctuations can be eliminated and stability assured through some general fund related to export earnings generally and which could compensate for temporary fluctuations in these earnings.

We think that the Nigerian proposal to free tropical products from duties and fiscal charges is a solution which we should adopt.

The seventh point is that work on these two problems must be closely co-ordinated and, in fact, integrated with the work going on in relation to economic development. The draft coffee agreement tries to make a beginning in this direction. There are provisions which look toward economic development and the avoidance of over-reliance on coffee. I would like to mention, for example, the CERCAL Plan which Brazil has in the blueprint stage, where a specific programme has been worked out to lessen Brazil's dependence on coffee and to reduce unwanted production. This type of plan must be very seriously considered as a part of any world-wide agreement on particular commodities. This should be an overall principle.

The question of bananas cannot be looked at without considering the economic development problems of, for example, Guadeloupe, Martinique and Somalia.

Trade problems cannot be solved until a way is found to bring production down to those levels which can reasonably be expected to be consumed in the world. Ways must be found to help certain countries diversify and become more efficient in production.

It is quite clear that one cannot take precipitate action in regard to coffee or bananas where such action would adversely affect countries which have costs and a structure of production which would simply not enable them, without the existing special arrangements, to compete in world markets. However, such countries themselves would greatly benefit from the new patterns we are talking about because their production would become more efficient and, except in certain very limited cases for which special arrangements might have to be made, they would be able to move into additional lines of production.

These are the seven guidelines that might be considered for adoption as a supplement to the ministerial Declaration of last November.

Finally, I come to the possible courses of action which the Group might consider adopting. These are the following:

- (i) the possibility of adopting at the present meeting, or as soon as possible, a further set of guidelines supplementing the December Declaration;
- (ii) the implementation of the existing and any further principles in respect of those commodities, namely coffee and cocoa, where very specific work is already being done. I assume that all countries represented at this meeting are likely to participate in the United Nations Negotiating Conference on Coffee. These countries have specific courses of action to follow - they relate to measures to increase demand, to reduce discrimination against certain coffee producers, to keep production down to levels which can reasonably be consumed, and to assist the diversification of the economies of less-developed countries. Such provisions must be written into the Coffee Agreement and the same principles should be applied and be contained within the framework of the proposed cocoa agreement;
- (iii) the Group might consider setting up a Sub-Group to concern itself with the problems of the other tropical products under consideration, or for that matter any tropical product, if considered necessary. In this connexion it would appear to be desirable to establish some order of priority. Perhaps bananas deserve more urgent attention than some of the other products. Such a Sub-Group would make recommendations to this Group on how specifically to implement the ministerial Declaration and any new general guidelines that might be adopted at the present meeting of the Group;
- (iv) decisions might be taken to take certain steps relating to overall courses of action. The United Kingdom proposal for duty-free entry for certain products, the Nigerian proposal and the United States proposal are cases in point. The question to be answered is whether something can be done in the Group to implement the objective of achieving duty-free entry and removing these products from the burden of revenue duties and fiscal charges. This is a field where specific action is very much needed;
- (v) an attempt should be made to develop some mechanism for linking up what we are doing in the trade field with the important work on economic development going on in certain other bodies. For example, it might be decided that the Group, or a Sub-Group, should work closely with certain other bodies, whether this be the Development Assistance Committee of the OECD or any other body specifically set up to do work on economic development and assistance. If we are to be successful, this co-operation is absolutely necessary. The exact methods to achieve a link-up would need to be examined. But certainly,

thereafter such proposals as the United States made with the Resources Stabilization Fund idea of last year might be explored. The United States never thought that this was the only idea worth considering. It did feel, and continued to feel, that there is perhaps a possibility during the interim period while special arrangements continue in existence and while these are gradually being replaced by some other benefits, that there might be world-wide commitments by all consuming countries as regards the level of earnings of the countries which might be disadvantaged by the removal of the special arrangements. A similar possibility might be examined in relation to the volume of exports of particular commodities. These are ways in which aid, economic development, and appropriate trade patterns might be successfully linked.

In conclusion, I would say that my delegation is entirely open-minded as to which courses of action we decide on here and on how we proceed in their implementation, but we are not open-minded on the need for action. Action rather than words is needed, and my delegation expects and hopes that out of this Group real action will emerge.